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Freshworks, Inc. (FRSH)

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CORPORATE PARTICIPANTS

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Chief Financial Officer, Freshworks, Inc.

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Scott Berg

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MANAGEMENT DISCUSSION SECTION

Scott Berg

Analyst, Needham & Co. LLC

Hi. Good morning, everyone. Thank you for joining us at our 25th Annual Growth Conference here at Needham. For those that don't know me, my name is Scott Berg. I lead our enterprise software and SaaS research here.

Today with us, we have Freshworks and an old friend, Tyler Sloat. Tyler, thank you so much for joining us early on the West Coast this morning.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Thanks for having me, Scott. Looking forward to it.

Scott Berg

Analyst, Needham & Co. LLC

I guess, to get started, how about giving an overview of Freshworks for anyone that's not familiar?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Sure. Freshworks, quite simply, we are a software company. Our goal is to make software that the end users love to use that's easy to deploy, easy to use and provides a great value. We started with our Freshdesk solution, which is a customer support solution, in recognition that, really, the whole landscape was changing, that there's a new way that end users wanted to engage with their vendors and their companies. And our Founder, G, realized this through his own support experience. He had built a couple of support solution in the past and founded a company around that.

Over the next couple of years, we realized that a bunch of our customers were using Freshdesk for their internal users and said, hey, wait a minute, you actually need a purpose-built solution for ITSM, and we built Freshservice. And then most recently launched Freshsales and Freshmarketer, all with the goal of providing a unified

experience, to provide our customers a unified experience to see the journey from lead all the way through to support for their customers on built-on-one platform.

Those are our three main products or core products. We sell these products globally. The company was founded out of India. We're a US company and always have been, but the majority of our folks are in India. And as such, it provides us an opportunity to go, number one, reach out to the global SMB in a very efficient manner, but, two, have a lot of capabilities to access really highly technical talent that allows us to innovate really fast, which is the reason we can have three core products. Those products, again, we sell globally. We sell from the SMB all the way up to the enterprise on a global basis.

Our revenue mix is a little bit different than, say, a traditional Bay Area SaaS company, and that we kind of started international and can kind of continue to look at the global market. That way, we've got 40% – rough numbers of our market – of our revenue is coming from North America and 40% from EMEA and 20%, rest of the world.

We service the SMB, which is a 250 employee and below companies just completely out of India. That mid-market enterprise, which is above 250, we have presence within GEO, mainly in North America and Europe. And then we also utilize partners globally, mainly for countries that we don't have physical presence. So, that's a rough overview.

QUESTION AND ANSWER SECTION

Scott Berg

Analyst, Needham & Co. LLC



Excellent. We do have several dozen people on the call here today. For those that do want to ask a question, there is a Q&A box in the presentation window. Feel free to input those or e-mail them directly to me at Scott – or excuse me, at sberg@needhamco.com, and we will field those at the end here when we're done.

Tyler, let's reflect back to your September IPO. The company has outperformed my initial fiscal 2021 revenue estimates by 4%, and it looks like your current fiscal 2022 estimates should be my initial estimates as well. We're not commenting on the fourth quarter, obviously, but your current guidance suggests you will be those initial estimates by about five points. But your growth has been positive even against a weakening macro.

So, in general, how is going public benefited the company?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



I'd say the first benefit of going public is really just putting us on the map and gaining some exposure. Freshworks is just [indiscernible] (04:07) companies that's kind of been below the radar, just doing what we do and do it really well, but not necessarily spending a lot of money on brand and a lot of money on corporate marketing.

Back when I took the job, nearly three years ago, I thought I knew kind of every Bay Area SaaS business. And Freshworks [indiscernible] (04:28) company I'd never heard of before, and it happened to be in the building next door, which was kind of funny.

So, number one, put us on the map from a exposure perspective. And that's been a great thing for us, that going public about a year and a half ago really has given us the opportunity to get a little bit more brand awareness, which is great, and we're going to continue to work on that.

Second is capabilities for our balance sheet. We've always been an efficient business and always been run that way. It's in our DNA. We said even for Q4 that we would be cash flow breakeven. And then going forward, free cash flow breakeven. And even with that, burning very little capital but going public allowed us to bring \$1 billion on to the balance sheet, fully capitalized, and allows us to go execute in a whole bunch of different ways that we were not really able to earlier, which is awesome.

Lastly, is just around – just growing, being able to attract talent, being able to have a little bit more of that exposure and being able to engage with customers with that added marketing benefit is a big help.

Scott Berg

Analyst, Needham & Co. LLC



So, staying on the macro side a little bit. Let's first talk about what you are all seeing in the broader macro. Freshworks is one of the truly global businesses that I cover, and you kind of touched on your presence globally, especially in India.

But what have you seen kind of through the third quarter maybe from our region or GEO basis. And is it significant pressure or is it something just more on the lighter side?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.



Yeah. So, Scott, as you mentioned, I already said, hey, we already have kind of – we have a global business. And that business also engages a lot with the SMB globally and then all the way up to enterprise customers. And I should spend a second on that, our products. We have this inbound motion, which is this high velocity motion that we are serving the SMB, and all that is just driven straight from website to trial to [ph] that (06:32). But we also are selling to large organizations now and closing what we would – not huge deals, but a big deal for us is kind of like \$50,000, \$100,000, \$250,000, these types of these customers.

Doing that on a – selling to the SMB, yes. The SMB has seen pressure globally in the whole last year, and quite frankly, all of it. A second thing where we've seen pressure is on FX, and I did mention we have about 40% of our business in Europe. And then the third thing we've seen pressure on outside of just even the SMB is just growth in general of our customers growing. Our biggest point of expansion is agent addition. And if companies are not growing, they're not adding agents.

So, exiting our Q1, we were one of the first companies to talk about this and say, hey, we think something's going to happen, right, where we're cautious. And we want to be tempered in our expectations. At that time, I think a lot of the feedback was a little bit negative and saying, well, what are you guys talking about? But then a bunch of companies started to highlight this. That has actually played out. And after our Q3 earnings, we did talk about that. Specifically expansion motion, we expect to see continued pressure.

That being said, we were able to have a really good new business quarter, which was, I think, contrary to what a lot of companies were doing. And that is really more of a testament to our products and the value proposition that we can provide to companies, getting them up and running really quickly with an incredible software that does really what they need.

And so from an expansion, yes, we expect it to continue in Q4 and throughout kind of for the foreseeable future. So, it's really how do you have the resilience to be able to continue to grow somewhat within your own customer base, but also bring on new business.

Scott Berg

Analyst, Needham & Co. LLC

Q

A natural follow-up to that, of course, is thinking about net revenue retention. You talked about the seed expansion motion being a little bit lighter here, especially in Q3. Have you guys provided any sort of guardrails to help investors think about where net revenue retention could potentially pop to? Because the new sales motion is good. You guys talked about selling modules to those customers as well. They're just not expanding seats and maybe the deployment that's already there.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. No, we disclosed our net dollar retention. And what we said coming out of Q3 is that, we expected to see some pressure on the expansion motion. The positive was that churn remained stable. And churn for us includes both deletions, which is a company actually going away, as well as downgrades. And so, that was a positive sign that it actually remained stable and it actually technically got a little bit better. We had been getting better at churn every single quarter for the last couple of years, and that had progressively been kind of something that we worked on really, really strongly, but also it helped our net dollar retention.

What we had said about gross churn is that, at one point, we were kind of in the low-20s in total gross churn for the company, and then we had moved it to the high teens. And so, when I say it remained stable, it kind of stayed in that range. And net dollar retention did come down. We had expected it. So, it was really not from churn that was coming down. The increase in churn was really from lower expansion motion, which is what we had expected.

Scott Berg

Analyst, Needham & Co. LLC

Q

Okay. Let's move towards competition just a little bit. You competed in highly competitive end markets. If we went down your product side, we could not a couple, certainly, it could be a dozen, it could be more than a dozen competitors, and they're in service of large ones that are very established.

But can you talk about how your approach to solving customers' problems with the Freshworks platform is differentiated, and why do you think you've been able to compete so effectively against some of these [indiscernible] (10:36) others?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I think first comes down to the core of what we do is to focus on the end user and make software that the end user is going to love to use, helps them get their jobs done. It's very user friendly and easy to adopt. And we've taken that approach with all of the software that we build.

With Freshdesk, the main competition there continues to be Zendesk and Salesforce. Zendesk has had their problems. They are still out there selling, but in that market, there is change. But that's our Freshdesk solution. In the SMB space, there's a ton of point players, everything from somebody coming off of email for support, all the

way through to regional players. As we get up to the mid-market enterprise, that's where we're seeing more of the Zendesk and Salesforce, and we are very comfortable going head to head with those companies on Freshdesk.

Our solution now over time where we stay true to the DNA of building for the end user and also building a software that's very easy to deploy and can be up and running very quickly. As we've added feature functionality over time, that software is not just relevant to the SMB, it's now relevant to the large enterprise. So, Freshdesk actually has our largest customers. Our over \$1 million dollar businesses are on Freshdesk as well.

Freshservice is the same exact thing, but the competitive dynamics are a little bit different where we made a purpose-built ITSM solution to – because we saw our customers using it. Started selling it with that same mentality of build a software that's really made for the end user, really easy to use, but has all the feature functionality you need. What we found in this market is that, number one, it's less crowded, but, two, it just has some interesting dynamics that ServiceNow is an entrenched player. They have continued to move up to larger and larger organizations.

You have a lot of legacy that's out there still, and this is still a lot of on-premise legacy, the [indiscernible] (12:40) BMC Remedy players. And then you have Atlassian is really playing at the lower end, which puts us squarely in the middle, where we would argue the number one SaaS solution for that mid-market, low enterprise customer. And we are aggressively attacking that market and want to continue to be the software of choice there.

The Freshchart, our product line, Freshsales, Freshmarketer set really CRM. That is tons of players in that space, and we are kind of following the same playbook, right? Start with software that's easy to use. It's really is going to be SMB-focused. And then as we progress, be brought into deals for larger companies and that is now happening.

And so that one, it will take time, but – and it is more crowd space. But we are looking at what is our ICP, our ideal customer profile, and then looking at what is the true value we can provide to those customers and then demonstrate that that values can be better than their alternatives.

Scott Berg

Analyst, Needham & Co. LLC

Q

Great. Moving on to products. You have three primary seats that you describe, right? Freshdesk, Freshservice and Freshsales. The company has more modules than that, but those tend to be the three main ones, primary ones that we at least talk about.

As you think about these, why were these the three great modules for the company to start with? And I ask the question because two are very customer centric and one is a little bit more IT centric. But if you think about all the applications and kind of the, I guess, road map and innovation that you're looking at, why do these three just make sense?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I mean, the company was founded off of Freshdesk, and that used to be the company's name. And that was really G. I'm not sure. Back in 2010 was whether he was thinking about creating \$0.5 billion organization or whether he was just trying to solve a problem that he saw right in front of him and then thought that he can bring something better to market. I'm glad he did and built an incredible support solution. And we've continued to see that there's change in that market. We've got to stay ahead of that change. And as the whole market shift, provide the technology that's going to enable that shift. And a lot of that surrounds to conversational messaging.

The genesis of Freshservice already mentioned wasn't purposeful either necessarily because what it was is that we saw customers using our desk solution for internal ticketing for their internal IT needs. And although that's great and it was up to almost 25% of the customers using it that way at some point, they said, you really need a purpose-built solution with what the workflows and the true needs of your internal IT organization, one that you could actually then expand out to do things like ITAM and ITAM capabilities. And that is what we built. So, we essentially started from scratch and built a purpose-built ITSM solution, Freshservice, from scratch and been able to continue to innovate on that.

You are right, Scott, that these are two different products. One is internal facing for employees, the other is external facing, more for CX is what we would call it. And I think over time, that is where we're evolving. And our Freshsales product is really external facing, and we see a lot of adjacencies from that all the way through down to support. And that is a strategy that we're going to continue to execute on, building these products on a platform that allows for this kind of seamless information flow from marketing all the way through to support.

We now have Freshmarketer, Freshsales and Freshchat all on that same platform. And over time, we'll be migrating components of the Freshdesk's solution on to it. We see something similar on Freshservice, right, where we can expand out those internal employee-facing products to provide more value for companies to engage with their employees. The most recent announcement in Q3 was Freshservice for Teams, which is really purpose-built ESM applications for other functions outside of IT, tends to be specifically HR or legal finance, those kind of groups and functions that have internal ticketing. And I think you're going to continue to see us going down the path of expanding out on the employee facing and expanding out on the customer-facing products.

Scott Berg

Analyst, Needham & Co. LLC

Q

When I think about product, we are looking at some of the innovation you all have brought to market over the last year or so, the one that really stuck out to me was the conversational AI announcement at your fall virtual event that you all hosted on the platform.

Is conversational AI more table stakes for vendors in your product areas today, or are you all taking maybe a different route to what this product looks like? Because I think we see conversational AI starting to make their way in a lot of these applications. I just want to try to understand what Freshworks might be doing differently.

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

I think – well, first, I think we saw it pretty early. And that – when you hear G talk, it's really about, okay, there's a new kind of generation of consumer that's coming up. And I look at my kids and see this happening that are not – I want to engage with their vendors, companies that they buy from and companies, I think, in a different way. And that engagement does not include email and does not include telephony. That engagement is really about getting on their phone and using social media or simply chatting over text with whoever it is that they want to engage with. So, we did see this, so we started building it. Now, when – that conversational AI, that's what conversational kind of support is, is a multichannel conversational.

What you need to do and I do think it is table stakes going forward is that, okay, that's not enough because you don't want a live agent sitting behind everything. You need to figure out how to do kind of answers and deflection without human intervention, but make that as transparent as possible to that end consumer. And that comes through bots. And so when you have the combination of both the capability to engage through multichannels, but

also be able to have a bot layer, that's their first line of defense, so to speak. That's where the secret sauce comes in, right?

And the multichannels is being able to flip from one to the other, being able to say, start with social media, go to chat and then go to email, but have this seamless interface on the back end for whatever the agent is, including whatever the bot responses would be, so that an agent could pick it up at some point if they need to or that you can facilitate things like a return of a shirt and have that entire history of conversation happening.

To be able to do all that, while also providing a software that's really easy to use and navigate, and that is what the secret sauce and what we're focused on. And I do think that is going to be table stakes going forward. It is the same in the employee facing things, right? How do you have integrations into your internal conversational tools to be able to provide the same experience for your employees? To answer the problems that they have quicker and remediate those problems as fast as possible with the least human intervention as possible? And that is what we're focused on.

Scott Berg

Analyst, Needham & Co. LLC

Q

We've had a chance to speak with a lot of customers since we've been obviously working on a story over the last couple of years. Your customers seem to really like solution, and they seem to enjoy it. I think G likes to use the word delight from time to time. They're delighted when they use the platform.

But how do we think about your product opportunity within that? Is this – if you look out over the next couple of three years, is this really more developing depth, additional depth than these kind of three beachhead areas or is there opportunities to bring more and more modules? Because as I mentioned earlier, I think the company has like seven or eight modules today, [indiscernible] (20:57) of the top of my head. But do you expand horizontally, or is it more of a vertical kind of approach?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

It is both, and we are focused on that. So, the depth comes as we get pulled into larger and larger deals with larger enterprises. You do need to have more robust components, without lack of a better word, or capabilities that are going to meet those enterprise-grade needs. And so, we've been doing that for years now and will continue to do that. And some products are more advanced than others in that space. That's where I think the more the depth comes in.

The breadth is it is a balance, right, because you can't do everything and so it is stock right at the end of the day. And so, what we do is we look out at our customer base, and then we also have our own perspectives. And we look at it and say, okay, what are the biggest needs out there? And those are the things that we're adding on breadth.

Now, are we going to be adding new "modules" per se? I think a lot of it will be like what we just saw with the Freshservice for Teams, which is ESM applications. It's not like we had to build a whole new product. What we got to do is extend out our Freshservice product. Purpose-built workflows, built custom things that are designed for specific functions. But we get to utilize all the platform components and the core product itself, and that is the goal. And that is part of what I was talking about when I said, okay, the Freshmarketer, Freshsales and now Freshchat are all on our – what we call our UCR by customer record.

The more things we can get and utilize our platform components, the less we need to actually kind of duplicate in terms of innovation, that we can continue to utilize the innovation supplied by the platform, but then it would be able to provide a lot more innovation in terms of feature functionality to our customers. And that is what we're focused on.

Scott Berg

Analyst, Needham & Co. LLC

Q

Yeah. Let's move to go-to-market just a little bit. Freshworks has really been a leader in utilizing a product-led growth strategy. I think if I look at all the companies, kind of newer companies I've been spending time with the last four or five years, I think the initial conversations with Freshworks were very early in that. And if you look at the company's history of fast revenue growth, you all have a lot of success there in particular.

But with all the product additions and as you move methodically more upmarket service, more mid-market and enterprise-level customers, how is your go-to-market model changing and evolving to meet what's often a different sales cadence?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. So, it has been evolving over the last years. So, you're right, we started essentially all inbound. And that's why I would – it was called as that kind of PLG motion where it's really getting potential customers to our website. They start a trial and that trial converts. And that still is a very important part of our business and one that we're going to continue to go execute on.

And, yes, I think we've done a good job at kind of balancing between organic searches as well as paid and then driving to that funnel with a great trial experience that then has a seamless conversion. And that is where we're bringing on all of our SMBs. We do have kind of what we would call sales assistance during that process. It happens after a customer starts a trial. But that's really about one of our folks engaging with a customer typically through the app or some type of a medium to make sure that they understand how to use the product and that they've configured it the right way and that they're getting the most out of it.

As we – as our products have progressed, we have been kind of pulled into larger deals and larger companies, so to speak. And that has kind of – what we've seen is that the requirement there is that those companies want to engage with you from a [indiscernible] (24:54) perspective in a different way. And that is what forced us to say, okay, we should probably have people in GEO to go engage with these types of companies. And that happened. It started probably four years ago, maybe 4.5 years and slowly. And then we've been building on that. But the build has been more about, hey, the market is there and we can see it. We need to actually make sure we can meet it. And so, we built out this field presence throughout North America, throughout Europe and some in South Asia to go engage with those kind of mid-market enterprise businesses.

Now, the reps that we've hired, they're still mainly inside sales reps. And they're selling deals from an office as opposed to kind of walk in the halls at the companies. But we do something. And as I said, we do have large companies. We have million dollar customers, and they expect a certain type of engagement.

Recognizing that this is continuing is one of the reasons they brought us – that we brought Dennis on board. And that he really has a ton of experience in kind of both kind of motions, but also kind of operational experience. And he has a great reputation for execution. And so, he's coming on and saying, okay, if a lot of our revenue is going to be coming from these larger deals in the future and engaging with larger companies, which it is, and we've been talking about how the mix of revenues shifted from SMB to mid-market enterprise over time, that we need to

make sure that we're ready to meet those needs, but do it in a very efficient manner and kind of, what we would say, the Freshworks way.

And so, that is what we've been very focused on. And it is going to be a continuation of what we've been doing, but more of a push into the field, not a dramatic hiring effort or not hiring tons of big expensive reps, but a subtle continuation of what we've been doing. At the same time, supplementing it with partners. And that – we've been doing that for a while, and we're going to continue to do that and focusing on partners that both are reselling our product, but also partners who can do the implementations that we need. These are not big GSI partners because our implementation times are really pretty short, but they are ones who can add software stacks on top. They could do integrations. They could do customizations if they need to, but they can be the one to take care of customers and GEOs that we don't have presence.

Scott Berg

Analyst, Needham & Co. LLC

Q

Got it. The partner kind of angles an interesting one. It's a follow-up. I guess, what trends have you seen there? You said not necessarily the [ph] SIs (27:24). And there's – we can see a lot of partners and some of these will come, smaller organizations, but they can have impacts on small customers, but also large customers, right? It doesn't have to be an [ph] SI (27:33). That's [ph] about (27:34) working on the Fortune 500 company.

But how do you get their attention appropriately to work more with you and how kind of evangelize and not necessarily resell, but obviously promote your product versus maybe your other solutions they've been working with historically?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I think the proof becomes in the products themselves. If they see that, number one, it's really kind of easy to sell our products because customers love them, but too easy to get them to implement and get a customer successful, then they're going to continue to repeat. The second is that it's – these tend to be not heavy consulting shops, right? They're half kind of sales partners where they might be doing localization for us a lot of things and ground marketing, but they have consulting capabilities, but they don't have to build small armies of consultants to go – to kind of essentially make their own revenue.

And those are our products, right? Our normal implementation times are very short compared to what it would be, our competitive peer set selling the same type of solutions. As such, our partners can make money on those implementations. We also pay them to resell and we'll give them dollars to do that. But they can also do high velocity, and they can figure out how to make repetitive sales.

The second thing is we have a pretty robust kind of app store where that we have a lot of partners who created applications who they can also sell those applications to end customers and make money that way. And so – and we think that's important, right, where we allow the partners to go extend out the solution where our customers need it and then allow them to monetize those solutions. And we have no problem with that.

Scott Berg

Analyst, Needham & Co. LLC

Q

You touched on Dennis' hiring as the company's new President and some of the impacts he's having on the go-to-market side. Just to kind of reiterate and clarify a little bit, it sounds like changes he is making there are maybe

smaller and subtle kind of evolutions of the organization versus something that's going to be a little bit more drastic and would create any sort of disruption into your sales cycles.

Is that the right way to kind of view your initial plan?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah, I think so. And a lot of change is really – we're not – it wasn't necessarily Q4 changes. We did – Jose Morales was our CRO, and he – it was kind of a joint decision. He left the company shortly after Dennis joined. We promoted Paddy who was our Chief Customer Officer to the CRO position. But that was very seamless because Paddy was already, as a Chief Customer Officer, very engaged with customers, very engaged with the field

And a lot of what was the focus and what we said at the end of kind of Q3 at our announcement, a lot of focus was not going to be Q4 or something. That was really going to be all about this year, which is fiscal 2023. And it was with the theme of focus and how do we become really efficient in what we're doing, but really focus on the opportunity in front of us.

And that is really what Dennis has been working on with the go-to market teams. And you're right, it's not drastic changes. It's really about focus and really making sure we are, number one, helping our go-to market teams to go do their jobs and make it as efficient as possible for them to do their jobs, but also kind of trying to eliminate a lot of the noise. And so, that was – is what he was brought in to do, and that's what he's been executing on in Q4.

Scott Berg

Analyst, Needham & Co. LLC

Q

Last question for me before we turn it over to audience Q&A. As a reminder, if you have any questions, just enter them into the Q&A window on the presentation screen or email them to me directly. We currently don't have any, but for several dozen people on this call, it's a quiet group. I guess, it's one kind of Thursday, but...

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Early.

Scott Berg

Analyst, Needham & Co. LLC

Q

...yeah, it's early. My last one is on financials. You're the company's CFO, so I have to at least ask one financial related question on the call here.

We all here on this call have seen the stock market pendulum swing from growth to profitability over the last year, effectively, basically, overnight. But Freshworks has been, I would call it, almost flirting with non-GAAP profitability several times over the last year, while only burning a very small amount of cash. You all have had a very efficient model, especially relative to a fast growth rate that you've been able to produce since your IPO.

But how do you think about balancing this current market demand for profitability with, at the same time, trying to capture a large market opportunity, knowing that big reductions to your operating model will likely have at least some negative impact on your growth curve?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Sure. So, I already mentioned kind of – the company already has a DNA of efficiency. It has been driven that way. And whether that's because it was founded out of India or just the way it has been run, a lot of that was I got to inherit which is great. We came into this year, had to absorb a lot of the costs of going public. And that's one of the reasons we said, hey, we're going to burn about \$25 million this year. The second thing is we guess we want to lean in and go capture market wherever we could. I am very proud of what we've been able to accomplish in terms of being able to have a lot of discipline around our business model, even in kind of a tough, what I would call, macro environment where we saw the expansion motion really slowing down and whatnot.

That was what allowed us to have almost \$10 million beat on operating loss and really come out and say, okay, we're not going to burn \$25 million. It's really going to be high teens. We're going to be free cash flow positive in Q4. And the expectation is free cash flow positive thereafter.

I think it's important to make money. I mean, that's the whole point of a company is to generate cash and profits. And if you don't do that then, theoretically, there's no value in your company over time. That being said, a recurring subscription model would obviously make sense to grow that subscription as fast as possible as well because that will create a bigger tails if things ever slow down. And we're not sacrificing those things. We are trying to balance both of them, go and invest as much in the go-to-market but do it – make sure that it's efficient and have efficiency metrics that we hold ourselves accountable to. And then if we are not being efficient, you don't throw incremental dollars into that go-to-market machine. You pull back and figure out how to become more efficient before you just waste money.

At the same time, we've also had the luxury of we've been hiring like crazy, and we've been able to just slow down some of the hiring to make sure that we are keeping in line our top line with our bottom line. I think we've done a very good job with that. I also think we're positioned really, really well. If we're going to have a free cash flow neutral to positive company with \$1.2 billion in the bank, we have a lot of opportunity to go execute on things.

What we said about the business model is going to be a three-step process. Let's get to sustainable free cash flow positive, and we've kind of outlined how we're going to do that. Then let's get to non-GAAP operating profit and get back to sustainability. And if you look at SaaS businesses, that often happens about a year, maybe a year and a half after you get to free cash flow. Then, get to GAAP profitability, which I think is important as well. And we haven't outlined that one. We have to work with the investor community a little bit to talk about stock-based comp and everything that's going on there. But we do think all of these things are important. And that is the model we're going after. At the same time, we have a massive market opportunity in front of us because of the three markets we play in, and we do plan to lean in and go capture.

So, we want to do both, Scott, is the answer.

Scott Berg

Analyst, Needham & Co. LLC

Q

Okay. We did get one question from the audience. The question is on the strongest competitor. Where do you win in the new RFP? Assuming some of your deals get to an RFP, obviously, some – a lot of the product by motion does not. And then typically, where are you winning against? I think you kind of already addressed some of them out there. But who would you say is really kind of your strongest overall competitor?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

It is varied by product. We have three product lines. If we are sitting in a greenfield desk solution or desk competition, Zendesk is going to be in that deal. They are still selling. We are very comfortable going head to head with them in a greenfield opportunity where we're both competing. And we've been doing that for years and feel really good about that.

In Freshsales and Freshmarketer, there's a ton of point players. I think, over time, we see that HubSpot will be one of the larger competitors there. They are ahead of us in that space, but we are focused on certain aspects of that market and starting to see traction there.

In Freshservice, it really is – there's a lot of legacy that we see migrations coming off of, and those are oftentimes companies pulling us into deals, stating that they're going to migrate out. And in those types of companies, we are very comfortable competing with ServiceNow for those lower enterprise types of organizations, just because of what we can provide from a software perspective, but with the cost advantages and the ROIs. If it's a very, very large organization putting out a huge RFP for kind of that typical heavy ServiceNow implementation, those probably are not going to be the right deals for us, and ServiceNow is going to win those. And we are fine with that.

So, it's three, different across our three product lines. And the other trench players, there's a bunch of new players that we are obviously watching and competing against across all those as well.

Scott Berg

Analyst, Needham & Co. LLC

Q

As you're answering that, we did get two more in from the same person, and we do have a couple minutes left here. So, we'll start taking one at least. What's the company seen with regards to Zendesk today? Are you seeing any more incremental churn from those customers, the only thing different competitively? Are they just maybe less competitive in some of the deals that you're seeing? I think the angle here is, are you benefiting at all from the take private of the company?

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

A

Yeah. I think we get that question a lot. I think the answer is, look, they're still selling. I mean, if you're a salesperson, you work at Zendesk, your livelihood is based off of you closing deals. And so, you're going to continue to go do that. As I just mentioned, if it's a brand new opportunity, we're very comfortable going head to head with Zendesk. What we have seen is that if Zendesk is already the incumbent, and we've actually have seen a bunch of kind of these things where we're getting calls from customers who have Zendesk internally already, Zendesk is being very aggressive on pricing to keep that customer, which I guess makes sense.

Those deals are hard to figure out. In some cases, we don't know if we're being brought in as a stalking horse and to go get better pricing. Or if they really do want to switch, we – there are anecdotes out there that we know of unhappy Zendesk customers. And we clearly are trying to take advantage of that. But they are still selling, and we would expect them to continue to do so.

Scott Berg

Analyst, Needham & Co. LLC

And with that, we're going to wrap it up because we are out of time. I wanted to thank everyone for joining us today. And, Tyler, thanks so much for getting up early on the West Coast. [indiscernible] (39:05).

Tyler Renwick Sloat

Chief Financial Officer, Freshworks, Inc.

Scott, thanks for having us, man. Thanks for being flexible. I hope the conference is going to great.

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