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Freshworks, Inc. (FRSH)

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CORPORATE PARTICIPANTS

Dennis M. Woodside
President & Director, Freshworks, Inc.

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Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Awesome. Thank you everyone for joining us to the Morgan Stanley TMT Conference. My name is Elizabeth Porter. I'm an analyst on the US software team and I am very pleased to have with us today Freshworks President Dennis Woodside.

Dennis M. Woodside
President & Director, Freshworks, Inc.

Hi everybody.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

We are taking audience Q&A, so mics are going to go around at the end. And for important disclosures please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. And with that, Dennis thank you so much for joining us.

Dennis M. Woodside
President & Director, Freshworks, Inc.

Thanks for having me. Welcome.

QUESTION AND ANSWER SECTION

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

So for those that might be new to the story, I think it'd be helpful to get an overview of the business. What is the problem that Freshworks is solving? And really who is the target customer?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah, our target customer is typically a small business to lower end of enterprise customer. We provide software that makes employees and customer – employees more productive and customer service more scalable, more productive. The primary teams that we're serving are customer support teams, IT teams, sales and marketing and we do that through an AI powered solution that currently powers over 67,000 companies worldwide.

We're a global company, about 45% of our revenues in the US and about 40% in Europe and the rest throughout the world. Founded in 2010, in Chennai, India. We have a large presence in Chennai which gives us a big competitive advantage from a cost perspective as well as from a speed to market perspective. And we currently are serving customers ranging from the smallest business up to large customers, like a Klöckner in Europe, a big steel company, Nucor Steel in the US company, like Discover Card, which uses us for all of their customer support queries, Amex Travel uses us. So that's a little bit of a flavor for the business that we're running.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. And I'd love to get just early on a perspective of the demand backdrop. In Q4, you guys really delivered solid results. You're seeing a lot of benefits from kind of moving up market, ITSM doing really well. So can you just talk a little bit about how demand has evolved in recent months and any sort of initial observation you're seeing into 2024 and how that might look different than 2023?

Dennis M. Woodside

President & Director, Freshworks, Inc.

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So last year, there were two big things that drove our success. One is our success in moving upmarket, and that was very intentional. We saw – really when I came in and saw lots of success in larger and larger companies. And so we reoriented the sales team to focus more upmarket. We brought in sellers with experience selling into larger enterprises. Our products have matured quite a bit in the last couple of years, so we can serve those larger businesses, like a Klöckner, like a Nucor. So that was a big push. And you see that in the numbers for Q4 where we closed record business in new business over \$100,000. That's one of the metrics that we track internally. We have more customers or we moved more customers into the \$50,000 plus cohort than ever before. And we had, we also saw that in our expansion rates ticking up. Our NDR ticked up 1%.

So that push upmarket was a big story for last year. The other big story for last year was the success of our IT products. In IT, we started with ITSM. We now offer a complete suite of products with IT operations management, ESM with Freshservice for Business Teams. And that market really is rife for disruption. You have ServiceNow, which competes at the high end with a product that's very sophisticated, very complex, very expensive. And then there's a lot of on-prem legacy providers that are not innovating.

So we've had success in that mid-market. To think of a company with 250 employees, up to 5,000, and the lower end of enterprise, so I think 5,000 employees up to 20,000. So that was really the story for last year. Those two drivers of growth. This year, the big story is expansion. And we have 67,000 customers now. We have multiple products that we can sell. We can sell ESM into an IT buyer. That product alone grew 50% quarter-over-quarter. Big opportunity there. And then we have AI. Every one of our customers is talking to us about AI. We had thousands of customers in our beta for Freddy Copilot. That beta ended and we're now going into GA this quarter. Traction looks good and we'll have more to say later in the year. But that's the big story for this year expansion. And then the other story that we're focused on is getting that customer support business back to higher levels of growth. We talked about that at our Analyst Day back in September. As a business is growing in the low teens, that needs to be higher. And we're focused on that as well.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And I want to go back to the expansion piece. Over the last year, clearly, it was a really tough environment, hard to do these upsells. People weren't hiring as much. And in Q4, you guys actually saw your NRR start to improve. And I think despite all this, despite the fears that we've had in SMB, your gross retention has also held in really well. So when we look at the forecast, NRR was guided slightly lower in Q1. But what are your expectations for how NRR could just evolve through the year and some of the signs that we're seeing in stabilization now, is that any sort of foreshadowing to potentially get to some improvement as we [ph] near the end? (05:45)

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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Yeah. So we do see internally two different cohorts of customers. You have those large customers where there's a lot of expansion opportunity. That's where we're going. That's where we're intentionally putting our sales efforts.

And then 40% of our business is still SMB. And we consider that companies with 250 or fewer employees. Our NDR for that large cohort is much higher than the company average and much higher than that SMB average. So what we need to do is get that SMB acquisition engine back to where it had been in the past. Our focus on field, our focus on larger accounts, we took our eye off the ball a little bit on that SMB approach. A change that I made in the last couple of months is splitting internally the leadership for that SMB business from the leadership for the field business, because we need focus on both. They're very different motions.

One motion is we got marketing means and organic means of attracting interest of an SMB, comes to a website, goes through a trial, and then ultimately converts to a paying customer. That's very different than a field motion.

So, that, we expect, will enable us to get that SMB business back to growth, where the growth rates that we want, which are higher than where they are now. In the meantime, we've got this great kind of larger account business where a lot of that expansion is playing out and that's pulling the number higher.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And another thing that we've been seeing over the last year as people had budgets under pressure was this theme of vendor consolidation. How can I do more with one vendor, bring down costs? And you guys have also kind of benefited from that seeing multiproduct adoption at about 26% of your customer base. So can you just talk a little bit about what are the customers consolidating kind of from, kind of where are they going on to? And help us understand kind of the longer term platform effect for Freshworks.

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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Yeah. So both on the IT side and the customer support side, we're seeing consolidation and that completely benefits us. And then we're seeing customers who want to consolidate across products within their enterprise, where they are just looking for fewer vendors overall. And on the CS side, think about where we were, let's say a year ago, where you have point players that just provide bots, you have point players that just provide AI or conversational layers. All that is in our platform. You get all that when you buy Freshworks. There's no incremental cost of adding that functionality. There's no tax on you of working with multiple vendors and integrating those solutions yourself.

Most of our customers don't want to do that heavy lifting of integrating two or three different solutions to create what we've already created. So that benefits us on customer support. On IT something similar is in play where there are point solutions for ITOM. There are lots of workflow solutions for departments outside of IT and our customers when they see – typically the first thing that they want to buy, they need is an ITSM. Once that's up and running and working, the IT department sees other uses and helps us move into these other spaces. So we think that kind of vendor consolidation and just the desire to simplify the lives of employees and ultimately the customer support team in particular is a huge tailwind for us.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And I want to switch a little bit over to AI, everyone's favorite topic. And you guys have done a great job, I think laying out some of the really early opportunities, whether it's Freddy Self-Service, Copilot, Insights. So first just on the CX side, how incremental could kind of add-ons from these CX Chatbot sessions be with self-service? And how do you think about the displacement risk with agencies over time?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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So we have today large scale customers who themselves are serving millions of consumers who have been using our bots even before they were AI enable to deflect 50%, 60%, 70% of their ticket. So it's real now and we're seeing that just accelerate. In those cases, our pricing model for bots is consumption based. So a session is defined as a 24 hour period in which a bot is interacting with an individual. And you can think of that as ultimately a resolution. Right. We're leading to some solution for the consumer of that company that otherwise a human would need to be involved with. So there's a real economic value to the buyer of that interaction and that's how we price it.

So as consumption goes up, our revenue goes up for that side of the business. And for large scale consumer companies, that's a meaningful part of our overall ARR. And a lots of companies are not large scale consumer companies, so the sessions are lower. But over time, that's a nice revenue stream for us to build on.

On the IT side, there's a similar concept where we have a virtual agent, and if you have a lot of employees, those employees' queries can be handled by AI enabled bot as opposed to by a human. That also has an economic value to the buyer. And we price for that. So we think that over time that's going to become a more meaningful part of our overall revenue stream.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And then on the Copilot side, you guys do have a different pricing mechanism for that instead of the consumption side, it's more price kind of per seat where \$29 kind of per seat per month does reflect a pretty meaningful uplift to ARPU when kind of [indiscernible] (11:29) kind of adopt. So can you just give us some updates on how traction for that solution has been kind of thus far to date and any sort of sense for how we could expect the adoption curve to start to trend?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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So we launched our Copilot product in data, open data to customers in the summer of last year. We have thousands of customers that signed up for the beta without us doing much, without much marketing and really no sales effort. Those are great customers. Now to go back to, now that we're in GA and convert them into paying customers, and that's what we're doing systematically. And the early indications are quite positive.

A large portion of the beta customers are active users of the Copilot product, meaning that their agents every day are going in and using Freddie Copilot to summarize conversations to, they're taking the suggestions from the AI and publishing those suggestions to the consumer or to their customer as an answer to the question. And we see the real productivity gains. We're seeing some companies see 50% improvement in productivity from the use of Freddie Copilot. So that's real economic value to those buyers. And we are pretty optimistic about our ability to monetize that over time.

Different customers will have different willingness to pay. So we have to find the right price in the market. I've been pleasantly surprised by the reaction so far. And we have a lot of customers that we're landing, that where AI is integral to that land. So in Q4, we landed 80 plus big customers because they wanted in on our AI, in particular the Copilot co functionality. It's a way that we can get them in and active quickly. So in those case the customers we included AI for one year, with the proviso that after that year, which gives us a year to make them successful, we'll price the Copilot product. So there's multiple ways that we can drive value.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great.

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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For us and our customers [indiscernible] (13:37)

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Awesome. And so to round out this whole three pronged approach that you guys are taking to AI, the last one is Freddie Insights and that's expected to be rolled out later this year. But can you just give us a view of kind of how you expect this offering to be used by customers? It's a little bit different than what we're seeing on the chatbot side. And any frameworks on how you think about monetization?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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So Insights is a product designed for the managers. So I'm managing a customer support team or an IT team, I come in and typically I'll have a whole slew of Power BI dashboards to understand what's going on. And then there's sort of a dig here exercise to understand the performance of my teams. How are we doing in Asia? Are we

meeting our SLAs? Where there are anomalies that I need to dig into and understand that performance in order to improve.

For Insights, we take away that cognitive load and Insights surfaces proactively things that the manager should be paying attention to. So it obviates that need for the [ph] hunt impact (14:42) find the insights. So it's a really interesting product for us. We are in the process of figuring how do you price that? Because the number of users is not going to be great, but the economic value is going to be quite high. For now, we're more focused on, we're also focused on driving that adoption and seeing the use cases that our customers are finding a value for that product. We're going to figure out how to monetize it over the course of this year and expect to go into GA in the latter part of this year.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

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Great. At your Analyst Day in 2023, you disclosed kind of Freshdesk and Freshservice, both with \$300 million in ARR, sort of that Freshdesk side growing kind of more low to mid teens while your Freshservice growing in this low 40s range.

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

That's right.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

You're seeing a big improvement from IPO. And Freshdesk was maybe around \$200 million and service is around \$100 million. So give us a sense for like why Freshservice is seeing so much stronger growth. What are some of the factors from the macro perspective and how durable do we think that is?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Well, first of all, the TAM for IT is huge, right? The TAM estimated by Gartner, I think it's \$20 billion TAM. And you have ServiceNow at the high end, who's done very well. But the market is still pretty fragmented. Their penetration of the overall market I think is in the low-20s or high-teens overall. So there's still a lot of business out there, especially in that mid-market and the lower end of enterprise that is not served or is served by kind of legacy on-prem players, all of which are owned by private equity, not where – they're not really investing in innovation at the rate that their customers want.

So we saw that and have systematically built a product, single platform, starting with ITSM, but then going into ITOM, going into ESM, ITAM, and that is what the market wants now. That's really resonating with the market. The product itself is easier to implement than our competing products. We know that from working with partners. Our average implementation time is in weeks, not -- certainly not years and not months, and the product was built with the agent in mind. So it's very easy to train your agents on our IT products.

All these things are very relevant for a buyer. On top of all that our total cost of ownership when you consider the cost of implementation, the cost of changing workflows, once you implement it is about a third of that of our competitors. So that's enabled us to win a lot of business and both replacements of legacy on-prem and then competing directly with ServiceNow at that lower end of enterprise.

Most companies – what we have built is what most companies need. If you get into massive, massive companies that that can afford to have specialists that just work on like, let's say, a ServiceNow deployment, that can work for that large company. But most companies don't have that. So that space in the market really is what we occupy now. And that's what we're really just building the business on.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. And then you mentioned for the – a little more of the SMB side of the business, but doing a better job at the kind of low end inbound motion that's coming. Anything else in terms of Freshdesk broadly of how to really drive the acceleration in that growth rate?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Yeah. I think we've internally been so focused on moving upmarket that we some degree took for granted that inbound business and we haven't been innovating as quickly as we should have. So now we've changed the leadership structure. We have the person who's leading, Mika Yamamoto, who came to us from F5, who's leading both marketing and that SMB business. And that and marketing is really integrated into how we compete in SMB. So we see a lot of opportunity in stuff that is optimizing that purchase funnel. So getting businesses that come in, trial us, to be successful in the product earlier and faster as a big area for us to win.

The other thing that has been where we've seen some early success and I think is promising is we launched a new customer service product called the Customer Service Suite in August of last year that combines conversational elements. So consumers who want to interact with their support team through Instagram or WhatsApp or SMS with traditional ticketing, and that product is off to a great start. That's very well suited for a small business all the way up through a large business. We had a number of large wins in Q4 for that product, so that also is a catalyst in the SMB business.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. And then moving on to Freshsales and Freshmarketer that historically has been a smaller contribution to the portfolio. At your Analyst Day, you disclosed they are around \$25 million in ARR. And how synergistic really are these products kind of with the broader portfolio? And is there anything that's needed from a product or a go-to-market perspective to really help these solutions become more meaningful contributors?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

So I think Sales and Marketer has a lot of promise for us to potentially be the next \$100 million business, right. We've done it with IT. Obviously, we did it with customer support to start with. And the reason I think that is there's, again, a market space that's not really well occupied. You have HubSpot, who's doing a great job with, say, very small companies, under 100 employees. You have Salesforce, which obviously is the enterprise leader, but there are a large number of higher-end SMB, lower-end enterprise and mid-market companies that are looking for something that's simpler and less expensive than what Salesforce is offering, but more sophisticated than what HubSpot is offering. And that's what we're building.

We run our company off of Freshsales and Freshmarketer. We're seeing upsell opportunities from customers that have been successful with our IT product and our CX product. An example is Addison Lee, which is a car service company in the UK. They were a Freshservice company that now runs all their sales and marketing on our

products. Another example is Blue Nile that runs customer support, it started with customer support. Now they run sales and marketing on our product. So we see the opportunity for that kind of mid-market upsell. And from a product standpoint, there's more we can do in getting people into the funnel and making them successful in that trial experience. And that's what we're focused on now.

From a feature complete standpoint, a lot of the features are there. It's more of a matter of getting our go-to-market engine really operating and upselling into that large customer support base and that large IT base.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. I want to get a little into the financials as well. For 2023, kind of you exited the year with a constant currency billings growth of around 20%, and the forward revenue guidance is for around 18%, 19%. And pushback we often get from investors is, it doesn't seem like as low of a bar just for that initial guidance. So what do you need to underwrite in terms of kind of renewals, new business activity, kind of macro versus your own execution to achieve the guidance and what is driving your confidence?

Dennis M. Woodside

President & Director, Freshworks, Inc.

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Well, I think we guided to something that we think is achievable. And if we look at the -- what you need to believe, the NDR numbers that we're guiding to are not meaningfully different than where we are today. So I think you need to believe that this motion upmarket continues. That's what we're banking on and we're able to continue to compete successfully, in particular in IT and these larger accounts. I don't think you need to believe that the customer support business is going to massively accelerate. That's upside. Same with Sales and Marketer. Any acceleration there really is upside. And that's how we constructed the guide.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. And then just...

Dennis M. Woodside

President & Director, Freshworks, Inc.

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Same with AI. We did not bake in upside from increased expansion, that's AI driven.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

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And I think it's really encouraging that you guys have had these products out in beta for AI, seen the success so far and just now kind of starting to monetize them. I think Freshworks is one of the early ones that we're seeing kind of make moves along the side. So we'll be staying tuned. On the kind of more longer term outlook, the fiscal 2026 targets were about a \$1 billion revenue suggests, around a 20% CAGR. So what are some of the key drivers across kind of the upsell, cross-sell that kind of gives you that confidence in kind of maintaining that durable growth?

Dennis M. Woodside

President & Director, Freshworks, Inc.

A

Well, we should be growing a lot faster than that, right. We put out a number that we think is achievable and that is the 20% CAGR number. That number anticipates really no change to current course and speed that we

continue to be successful with IT, with that upmarket motion that our business becomes more mid-market, lower end of enterprise centric, that our business becomes more IT focused over time, that the customer support business doesn't have some rapid acceleration. There is no AI that's baked into that number because that when we publish that number, we had just launched our AI products into beta. And our philosophy is that we're going to provide a number that we have visibility into. There is no upside from Sales and Marketer baked into that number. So our goal, our job – my job is to exceed that number meaningfully over time. And I think we got all the levers to do it. Think about AI. Think about the breadth of the IT products that we now have to sell in relatively low penetration of the market, potential upside from CS, potential upside from Sales and Marketer over time. So, all those things I think are things that excite us internally about, hey, we can not only just do this, but we ought to be able to beat it.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

And on the margin side, your guidance for fiscal 2024 implies about a 50 bps expansion this year. And just want to think about what are some of the incremental kind of investments that you guys are expected to make this year and kind of the willingness to invest kind of what does that say about your view on kind of a broader demand environment?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

A

Yeah. So last year, we had pretty substantial expansion, free cash flow, operating margin, what have you. This year we are investing roughly \$70 million more in OpEx over the course of the year. And a meaningful part of that's going into product and engineering, which is a team that we actually held flat last year. So, you've got some kind of pent-up growth that you need to fund. We see opportunities to invest in IT product for sure, but also in customer support and of course in AI. That's where those funds are going.

We see incremental investment in sales and marketing over what we did last year in particular to fund that continued march upmarket, and then to fund that reinvigoration of the SMB business. Now, the way we've constructed our P&L, the investments are in there, but the upside is not. So, if we don't see the upside, we don't necessarily, aren't necessarily going to spend the money, and if we do see the upside, that's all incremental to the bottom line right? So that's how we set the year up to give you a little bit of context.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

That's great. Thank you. So I am going to ask another question or two, but after that, we will have mics come around for anybody in the audience that has questions. Wanted to go a little bit on kind of the M&A side. Your product portfolio has really been built organically. How do you think about staying with that model, opportunities to be opportunistic in tuck-ins, and any sort of areas of the portfolio that you think you can do with greater job servicing.

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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So, I think we've done smaller acquisitions in the past, mostly acqui-hires and a couple of small tuck-ins that had technology that formed the basis for functionality that we have now, such as chat. Going forward, we have the financial capability of doing some meaningful transactions if we want. We have over \$1 billion in cash in the bank. I think that we see opportunity across the portfolio in particular in IT there's just a lot going on. We're following our customers and our customers are asking us for capability in multiple areas that are adjacent to where we are

today. So we're always on the lookout for those kinds of deals that are meaningful and that can move the needle for us. We're not going to do anything crazy, but I think that there are some interesting opportunities that we're looking at now and we'll see where those go.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Okay. Do we have any audience questions?

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Q

Hey, Dennis, can you comment on the Klarna news from last week and maybe specific to them kind of what are they doing with you? Kind of what is integrated into your solutions? And then like broader picture, kind of what kind of customers will kind of use your own technology versus maybe [indiscernible] (28:02) side, maybe try to go on their own.

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yeah, so Klarna is a big fintech, pre IPO and they have always used their own technology for level one support. So for answering the simpler questions that come in from their very large consumer base. What they published last week was that they're applying AI to that use case. We have always been their solution for level two support. So complex escalations that can't be resolved in that first interaction with a customer. That hasn't changed.

They in fact recently renewed with us and wouldn't have done that had they thought that, okay, we're not an important part of their overall solution. So they're unique in that they have, I don't know, hundreds, if not thousands of engineers that can work on this problem for them. We haven't seen any other customer go that route, and we think most customers aren't going to be able to go that route or want to go that route. And the investment required to stay on the leading edge and to really continuously innovate in this space is pretty high. So we'll see if that how that plays out over time. But for now, we haven't seen anybody else doing that.

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Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Any other questions? I want to ask how you guys are leveraging your own tools internally, the promise that AI to drive efficiency for your customers. What sort of efficiency benefits are you guys seeing as you develop and use your own tools? And what does that mean for the impact for the longer term operating margin?

Q

Dennis M. Woodside

President & Director, Freshworks, Inc.

Yeah. So we use AI extensively now across our business. We use our Freddy for developers, which is a product that enables developers to create integrations more easily between our products and other products. We use that internally to develop integrations with third party products. We use our customer support Freddy for Copilot to improve our agent productivity. We have thousands of customers too. They're asking us questions all the time too. We're handling those questions through Copilot.

A

We're using Freddy in our Sales and Marketer product to suggest to our reps which prospects have greater potential than other prospects, and what is the next best action that they ought to take with respect to their customer base. So we're seeing meaningful productivity gains, and I think what we're seeing is comparable to

what you would see, what some of our customers are seeing. We can, in certain parts of the business, we can see productivity gains of close to 50% from the application of AI to our own business. And so over time, as we get better at it we're going to externalize that and share more about how we're using our own products to be more efficient and effective.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. And from the Analyst Day, the kind of medium term model it was targeting 18% to 20% operating margins, which suggests you kind of need to expand around 500 bps a year from the guidance for about 8% in 2024. How do you think about kind of what are the levers to be driving that? How much is that kind of this AI piece? How much is top line?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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Yeah, a big part of it is expansion generally, right. So as our base gets bigger, more and more of our incremental is going to be coming from that expansion lever and growing ARPA overall. And so that's historically has been organic addition of seats, customer support team expands and IT team expands. We add another department and your seat count goes up. But incrementally going forward that's going to be true cross-sell of IT into CS. So half of our top 20 accounts today are both IT and CS customers. We think that's a big opportunity for us over time. More and more is going to be adding in Copilot, moving customers from lower pay plans to higher pay plans. The AI functionality is only available in our pro and our enterprise editions, so if you're on a lower paid growth edition, you need to move to pro in order to get AI. We think every business is going to want AI. So that's another lever that we're looking at. And then that motion within IT from just serving the IT team to serving all teams, HR, finance, legal, we see workloads on our Freshservice for Business Teams now, in those departments, that's another huge lever. So the leverage in the business model is going to come from that top line. That's where we're really focused and obviously from being smart about our incremental costs.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

And when we think about kind of the partner channels, is that an area that you guys can do more with to drive that leverage?

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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Yeah, we haven't talked as much about partner. I mean, today about a third of our inbound or of our new business originates with a partner referral of some sort that could be much higher. And as we go upmarket, more and more partners are helpful in integrating our solution into a complex IT environment. So we're increasingly bringing in partners to that upmarket sale and then they're in return bringing business back to us. We know when partners get involved, our close rates go up on new sales, our retention rates are higher. So that's huge opportunity there.

We announced a partnership with AWS where we're one of their preferred partners. We're in their marketplace today. If you're a customer of AWS and you have unused credits with AWS, you can use those credits to purchase our software. That's a big motivator for purchases. We have a number of large accounts that landed in Q4. And that was a reason that they chose us and a reason that the sale moved as quickly as it did. So I think we see potential there as well. And then there's a number of interesting software partnerships that we're pursuing, new integrations with the likes of Workday that also potentially could offer a sale motion along with them. So over time, yes, partners is something that we are leaning into and I think will drive real value for us.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Do we have any audience questions? I want to ask on the balance sheet a little bit. You ended Q4 with over \$1 billion in cash and marketable securities. What are your capital allocation priorities? You have a good chunk there, so plenty of opportunity.

Dennis M. Woodside*President & Director, Freshworks, Inc.*

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Yeah. I think for now, we've said in the past that how to allocate that capital really is a board decision. And we talk to our board every quarter about what might we do with that over time. While we're in a mode of really driving that top line growth, while there are potential acquisitions out there to be made, I think we're sitting tight. But it is something that we look at and we make sure that we're managing prudently and we think it's an advantage to have that kind of capital at the ready if opportunities arise.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Q

And with the last couple of minutes we have left, you have a lot going on in 2024 whether it's expanding the portfolio, AI, the move upmarket continued to gain momentum. So from sitting in your seat, what are the one or two things that you are most focused on and most excited about [ph] in your head (35:35)

Dennis M. Woodside*President & Director, Freshworks, Inc.*

A

Yeah. Across the company we're focused on AI because that's the – it's the – there's just pent up demand. Customers want to talk to us about how they can use AI to improve their business. And they realize they need AI to be on a platform that makes their employees more effective and their customers happier. So every conversation is about AI and every internal conversation really is about how do we drive adoption, drive customer success, help the customer see the value and then ultimately monetize. So that, I would say, is the number one thing that we're super excited about. And I think that's related to this theme of, okay, we've gotten – we've figured out the notion of how to acquire new business. We need to figure out the art of really expanding the relationship we have with our existing customers now that our portfolio is much broader. So those two things overlap and are related, but that's where I'm spending a lot of my time.

Elizabeth Porter*Analyst, Morgan Stanley & Co. LLC*

Great. Awesome. Well, we're looking forward to everything that comes in 2024.

Dennis M. Woodside*President & Director, Freshworks, Inc.*

Thank you. Thanks.

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