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# Freshworks, Inc. (FRSH)

Q3 2021 Earnings Call

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

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**Stan Zlotsky**

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**Luv Sodha**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon, and welcome to the Freshworks' Third Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Joon Huh, Vice President of Investor Relations. You may proceed.

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### Joon Huh

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

Thank you. Good afternoon and welcome to Freshworks' third quarter 2021 earnings conference call. Joining me today are Girish Mathrubootham, Freshworks' Chief Executive Officer; and Tyler Sloat, Freshworks' Chief Financial Officer. The primary purpose of today's call is to provide you with information regarding our third quarter 2021 performance and our financial outlook for our fourth quarter and full year 2021.

Some of our discussion and responses to your questions may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on Freshworks' current expectations and estimates about its business and industry, management's beliefs and certain assumptions made by the company as of the date hereof, all of which are subject to change. These statements are subject to risks, uncertainties, and assumptions that could cause actual results to differ materially from those projected in the forward-looking statements. For a discussion of material risks and other important factors that could affect our results, please refer to today's earnings release, our final prospectus related to our initial public offering filed with the SEC on September 21, 2021, and our other periodic filings with the Securities and Exchange Commission. Freshworks assumes no obligation to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this presentation, except as required by law.

During the course of today's call, we will refer to certain non-GAAP financial measures. Reconciliations between GAAP and non-GAAP financial measures are included in our earnings release, which is available on our Investor Relations website at [ir.freshworks.com](http://ir.freshworks.com). I encourage you to visit our Investor Relations site to access our earnings release, periodic SEC reports, a replay of today's call, or to learn more about Freshworks.

And with that, let me turn the call over to Girish.

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### Rathna Girish Mathrubootham

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

Thank you, Joon, and good afternoon, everyone. Welcome to our first earnings call as a public company. We met many of you during our roadshow, but for those of you that are new to the Freshworks story, I would like to start by sharing our mission. Freshworks makes it fast and easy for every business to delight their customers and their employees. We do that by offering modern and intuitive customer engagement and employee engagement software. Freshworks is a global software company with customers in over 120 countries, and more than 4,400 employees who operate out of 13 offices globally.

We have three main product lines, Freshdesk for omni-channel customer experience, Freshservice for IT service management and employee engagement, Freshsales Suite for sales and marketing automation. All of our products utilize services from our Neo platform, which provides shared services for rapid innovation. We design our products to deliver delight to the frontline users of our software. Additionally, they are designed for rapid onboarding, quick time to value, and offer a lower total cost of ownership. Our fresh approach to business software is what got us to where we are, and what will continue to differentiate us in three large established markets, with the total addressable market of \$120 billion.

So, let me quickly summarize our first quarter as a public company. Freshworks had another good quarter of growth in Q3. Total revenue for the quarter was \$96.6 million, growing 46% year-over-year. We now have over 14,000 paying customers who are paying us more than \$5,000 in annual recurring revenue and driving the vast majority of our business. We saw strong expansion activity from our existing customers, and made real improvements on gross retention, resulting in a net dollar retention rate of 117%. Our CFO, Tyler Sloat, will offer more details on that shortly.

Our product-led growth strategy continues to be the biggest driver of new business for us. This is augmented by an outbound sales team and a partner network to serve our customers from SMB to larger enterprises. We define our SMB market as companies with up to 250 employees. Anything greater, we define as mid-market and enterprise. Freshworks continues to grow and attract larger customers, and today we have a majority of our business coming from mid-market and above.

In Q3, we added more than 50 new channel partners globally, in addition to extending our ISV partnerships. We are very pleased with the positive customer response to our products and are proud of the continued industry validation we are receiving. In Q3, Freshworks was recognized by Gartner as a Challenger in the 2021 Magic Quadrant for IT Service Management Tools. This follows their earlier recognition of Freshworks as a Visionary in the 2021 Magic Quadrant for the CRM Customer Engagement Center. Additionally, TrustRadius recognized us for top IT Asset Management and ITSM in 2021.

This quarter, our modern, intuitive and easy-to-use products continue to make their way into companies of all sizes, gaining recognition and delivering value for businesses across many industries. We welcomed Fortune 500 companies like Philips and Toyota Connected India, who are using Freshservice to enable IT service management. Fast growing tech companies like ForgeRock, Lucidworks and Smashburger, a restaurant chain headquartered in Denver, implemented Freshservice to connect their global employees with IT support.

Scotch & Soda, a global fashion retailer, is also using Freshservice to enable IT functions for more than its 1,500 team members. Today, as every business is looking to engage with customers online, our Freshdesk product continues to see greater adoption. For example, the world's largest international beauty retailer, Watsons, implemented Freshdesk to help support their online buyers, while Hunter College in New York, relies on Freshdesk to help current and prospective students during the admissions and registration process.

We will be highlighting many of our customers next week at our Refresh Conference on November 11. We hope you can join us online to learn about our latest product innovations and hear from customers on how Freshworks promise of delight made easy helps their businesses.

Last month, I had the opportunity to travel to India and spend two weeks in our office in Chennai. It was energizing to be back for the first time since 2020. I was able to meet new employees and work side by side with many of our product and engineering leaders. It was great to hear that many of our employees are excited to

come back to the office, which is why I'm happy to announce that as of yesterday we have fully reopened our offices in Chennai, with our other global offices to follow shortly.

In Q3, we continue to invest in the strong teams we have in place, welcoming hundreds of new employees. We promoted Pam Sergeeff to Chief Legal Officer for Freshworks, further adding to the breadth of our executive team. We strengthened our board by adding two industry veterans, Zach Nelson, former CEO of NetSuite, and Jennifer Taylor, Chief Product Officer at Cloudflare, as Independent Directors.

In closing, I want to thank our employees, customers, and partners for helping us get to where we are today. We believe we have huge opportunities to keep growing and delighting more customers every quarter.

I will now turn it over to Tyler to share more on our financial results.

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## Tyler Renwick Sloat

*Chief Financial Officer, Freshworks, Inc.*

Thanks, G. And a warm welcome to all of you joining us on the webcast. We enjoyed meeting many of you, our shareholders and analysts, over the last few months as we went through the IPO process, and look forward to our public company journey together in the coming years.

For our initial call as a public company, let me cover a few different areas today. First, I'll review our business model and provide a financial framework for how we think about managing Freshworks. Next, I'll cover the highlights from our third quarter, including key operating metrics and financial results. And finally, I'll close with our views on our journey ahead and our guidance for Q4 and full year 2021.

As G mentioned earlier, we offer three main product lines, two of which are at scale; Freshdesk for the customer support market and Freshservice for service management market. We're in the early stages and continue to scale our third main product line, Freshsales, and we are optimistic about the long-term opportunity in the sales and marketing automation space. With these three product lines, we also have three go-to-market motions, starting with a highly efficient inbound product-like growth motion as companies find our products through digital channels and online search. We couple the PLG motion with our outbound motion, which includes field sales reps to help serve our larger customers in the mid-market and above.

The third leg of our go-to-market motion is our partner ecosystem around the world that helps extend our reach to serve our customers where they are located. Our business model is supported by an efficient financial framework that allows us to continue investing for growth while making incremental improvements to drive operating leverage in the business. This provides us flexibility to invest and double down on key areas of our business while maintaining a healthy margin structure.

Starting with cost of revenue and gross margins, we're running at really healthy levels. Our non-GAAP gross margins have averaged around 80% over the last several quarters, and they improved to over 82% in Q3. I'll cover more on that later.

Looking at our operating expenses, we manage our sales and marketing spend through a number of internal efficiency metrics, comparing our sales and marketing costs to our incremental revenue. We regularly benchmark our efficiency metrics versus our peers. We're also making R&D investments to continue driving our product development and technical innovation cycles. And because we're able to [ph] attract (11:20) top technical talent in areas like Chennai, we can invest in a meaningful yet efficient manner.

For G&A costs, we're increasing investments this year as we have a number of public company costs, some of which will be ongoing. More importantly, we expect to gain operating leverage over time as we scale the business. With our broad product offerings across three big markets, we have a huge market opportunity so we will continue investing to drive long-term growth for Freshworks.

Turning to our Q3 results, we delivered another solid quarter of growth in our first quarter as a public company. As a reminder, I'll focus most of my discussion around our non-GAAP numbers for our Q3 results. These non-GAAP numbers exclude the impact of stock-based compensation and related expenses, amortization of acquired intangibles, historical acquisition-related expenses and other adjustments.

In Q3, we delivered healthy revenue growth of 46% year-over-year, resulting in \$96.6 million for the quarter. While the revenue growth rate is lower relative to Q2, this is very much expected as our Q2 growth benefited meaningfully from a favorable comparison arising from a COVID-impacted quarter last year.

As I mentioned earlier, our non-GAAP gross margins increased to over 82%. This is primarily driven by more efficient spend on certain service provider agreements and ongoing improvements for infrastructure spend in the quarter. While we're pleased with the improvement in the quarter, we generally target our non-GAAP gross margins in the 80% range as we manage the business.

Our non-GAAP operating expenses increased by \$28.5 million versus the prior year to \$81.4 million. This was mainly driven by increased investments in our teams for R&D, sales and marketing, and G&A as we meaningfully added to our Freshworks family over the past 12 months. More specific to marketing, we increased our advertising, branding, PR, and event costs by \$5.5 million compared to last year as we created more awareness for our products in the marketplace. In G&A, we made important investments in personnel and infrastructure to prepare for operations as a public company.

All this led to a non-GAAP operating loss of \$1.5 million for Q3 as we improved our non-GAAP operating margin by 4.5% quarter-over-quarter. Looking at our GAAP operating expenses, I should note that we had a large impact from stock-based compensation and related expenses of \$138 million in Q3. This was related to our IPO, which resulted in a significant RSU vesting event and a large catch up expense for SBC. Going forward, we expect SBC to be more normalized – to be at more normalized levels of approximately \$45 million per quarter.

Turning to our key operating metrics, we continue to see good business momentum in the quarter. We saw robust expansion activity as our net dollar retention rate was 117% for Q3, up 8 percentage points compared to the prior year. Our customer teams are making good improvements to our gross retention rate, and we have benefited from an FX tailwind of 1% year-over-year.

As a reminder, we calculate net dollar retention rate on a trailing 12-month basis, comparing our customers' beginning and ending ARR. Given the customer segments we operate in, including SMB, we believe our business model supports 110%-plus net dollar retention rate longer term.

Our second key operating metric, customers contributing more than \$5,000 in ARR, grew to 14,079 or 31% year-over-year, which reflects a net add of over 3,300 customers. These customers consistently drive the vast majority of our business and represent 84% of our ARR, similar to our Q2 results. When we look at larger customers, those that contribute more than \$50,000 in ARR, this number grew 73% to 1,263 and reflects a net add of over 525 customers, representing 39% of our ARR. We're pleased to see that our easy to use products continue to resonate with customers and organizations of all sizes around the globe.

Moving to our balance sheet and cash flow items, our calculated billings, which is a sum of our revenue and change in deferred revenue in the quarter, was \$109.3 million in Q3, growing 41% year-over-year. Similar to the revenue growth dynamic, we expected calculated billings growth for Q3 to be lower than Q2 due to the favorable comparison for Q2 last year. While the billings duration mix had minimal impact on the growth rate in Q3, we had a headwind of a few percentage points in growth related to reserves and commissions.

In terms of cash, we ended the quarter with more than \$1.3 billion in cash and cash equivalents. This includes the net proceeds from the IPO of \$1.07 billion, free cash flow of negative \$4.2 million, and an additional \$24 million in proceeds from the sale of an earlier investment in a private company.

Today, we have a strong balance sheet to support the growth of our business. We have had really healthy growth throughout the year, and we continue to support that with an efficient financial model. Even with growth investments and increased public company expenses in Q4, we expect to be roughly free cash flow breakeven for the quarter. Lastly, our diluted share count as of the end of the quarter, September 30, 2021, was approximately 323 million shares.

Some final thoughts before I turn to our financial outlook. We have a huge opportunity in front of us. We're playing in large established markets of customer support, ITSM, and sales and marketing. We're seeing good momentum in our product adoption and gaining more market recognition. We're adding both new and larger customers and seeing robust expansion across our customer base.

We're investing to fuel our growth as we go after this massive opportunity. 2021 continues to be a big investment year for us. We're adding to our go-to-market teams around the world to expand our market presence. We're investing in the ongoing innovation of our easy to use products, and we're creating the infrastructure to operate efficiently and deliver value as a public company.

Looking ahead to Q4, this includes an increase in our expense base resulting from ongoing investments in our personnel, higher infrastructure and insurance cost as a public company, and increased marketing and events costs as travel opens up.

Now, let me turn to our estimates for the fourth quarter and full year 2021. For the fourth quarter of 2021, we expect revenue to be in the range of \$99 million to \$101 million, non-GAAP loss from operations to be in the range of \$13.5 million to \$11.5 million, and non-GAAP net loss per share to be in the range of \$0.07 to \$0.05, assuming weighted average shares outstanding of approximately 269.1 million.

For the full year 2021, we expect revenue to be in the range of \$364.5 million to \$366.5 million, non-GAAP loss from operations to be in the range of \$21 million to \$19 million, and non-GAAP net loss per share to be in the range of \$0.22 to \$0.20, assuming weighted average shares outstanding of approximately 130.4 million.

Let me close by saying that we're excited about a great journey ahead and look forward to partnering with our shareholders. And with that, let us take your questions. Operator?



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes the line of Brad Sills from Bank of America Securities. You may begin.

### Brad Sills

*Analyst, BofA Securities, Inc.*

Q

Oh, great. Thanks, guys. Congratulations on nice results, your first quarter as a public company. I wanted to ask about the enterprise activity that you saw in the quarter. It sounds like you're seeing some traction there with some of the larger accounts. Can you remind us kind of where the focus is in the upmarket business? Where do you draw the line and where's the opportunity for the company from here?

### Rathna Girish Mathrubootham

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

A

Hi, Brad. Thanks for the question. So we continue to focus across three go-to-market motions. So we have our product-led inbound growth motion, which the majority of the customers there are SMB customers, which is companies with less than 250 employees.

But having said that, we also get teams from larger enterprises come inbound and they are handed off to our mid-market sales teams. So we have our mid-market teams, field teams in region, in US, Europe predominantly. They go after larger accounts. So if you look at the split, it still is around, I would say, 60/40 mid-market to SMB approximately. So – and we are seeing – if you look at Q3 specifically, I think customers who paid us more than \$50,000 ARR, that grew – that number grew at 73% year-over-year.

### Brad Sills

*Analyst, BofA Securities, Inc.*

Q

That's great to hear. Thank you so much and then one more, if I may, please. Just on – with the Neo platform, I know there's a aggressive road map to build out more modules within the stack that you have and then in other categories like sales, which you've mentioned is early, where is the focus in the near-term and are there some deliverables that we should be kind of keeping an eye out on for some product extensions and adds going forward? Thank you.

### Rathna Girish Mathrubootham

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

A

Yeah. Our vision for Neo platform is to continue to execute on three major business benefit drivers, one, for our customers. We want Neo to offer a unified product experience, so whatever services that we offer in terms of single sign-on or a 360-degree view of the customer across sales and marketing and eventually support custom objects and a bunch of other services.

Neo platform allows customers to have a better unified experience. For developers and SI partners, Neo platform offers a marketplace where they can build apps and today, we have more than 1,100 public apps and customers can build. I have built thousands of private apps to extend the power of Freshworks platform. So that is also an area where we continue to invest in the capabilities of what can be accomplished in an app so – and you will also see some exciting announcements in our Refresh conference next week.



And the third is for our own developers – internal developers where we have what is known as foundational services where all of our products can use like services like email processing at scale or chat messages, listening to chat. All of that is part of Neo platform, which gives us product velocity and innovation. So across all of these three areas, we continue to execute on the Neo platform.

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**Brad Sills**

*Analyst, BofA Securities, Inc.*

Q

That's great to hear. Thanks so much, Girish.

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**Rathna Girish Mathrubootham**

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

A

Thank you, Brad.

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**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks, Brad.

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**Joon Huh**

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

A

Thanks, Brad.

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**Operator:** And our next question will come from the line of Stan Zlotsky from Morgan Stanley. You may begin.

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**Stan Zlotsky**

*Analyst, Morgan Stanley & Co. LLC*

Q

Perfect. Thank you so much, guys, and congratulations on your first public quarter. Very well done. Maybe just following up a little bit more detail on Brad's question. As you look into the big Q4, what are you seeing in your pipeline as far as the demand for the upmarket portion of your business across all the different products that you have? And then I have a quick follow-up for a financial question.

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**Rathna Girish Mathrubootham**

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

A

So thanks, Stan. I think we are always looking at ways to improve our pipeline, and so we have a mix of programs across our different go-to-market motions. So like marketing teams and sales teams are kind of investing in events together, increasing word of mouth. So we are bringing up some new campaigns to take the omni-channel customer service or even IT engagement – employee engagement in a post-pandemic world. So we have multiple targets for [ph] new and (24:16) expansion. So I think we don't have a specific number to give out for pipeline, but there is a ton of activity that we are doing to see how we can improve pipeline across both inbound and mid-market.

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**Stan Zlotsky**

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. But just maybe more broadly, what are you seeing as far as your customers' budgets as you go into Q4? Are you seeing any weakness or is it just steady momentum versus what you've seen through Q2 and Q3 now?

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Stan. This is Tyler. No, we're seeing steady momentum. I mean we have some seasonality in our business, specifically in the mid-market and enterprise business. And from that, that's where we do track pipe obviously. It's solid globally right now but our presence is mainly North America and Europe, and that's where we have our field reps out there.

As a reminder, we also have this product-led growth, inbound motion, and that's not really something you consider in pipe. It's more about how many customers are in trial and those trials typically convert less than 30 days. And so we're tracking both obviously to be able to get a sense of it and growth is good. It's solid.

**Stan Zlotsky**

*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Perfect. Very helpful and Tyler since you're already on...

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Yeah.

**Stan Zlotsky**

*Analyst, Morgan Stanley & Co. LLC*

Q

...net revenue retention obviously stayed elevated, very impressive, 117% in the quarter. And you talked about the 110% level is the kind of more normalized. But how should we think about the path from, yeah, this 117% to a more normalized 110%? Or alternatively, is there a possibility that this would continue to stay elevated for quite some time as you continue to sell this really broad portfolio of products you have, as well as just the trailing 12-month nature of the metric?

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Yeah. No, we had talked during the road shows. Remember that we do expect to be more of this 110%-plus kind of low-teens net dollar retention. We do expect decline there to get to that kind of longer term number.

That being said, we're super pleased with the quarter and the performance. I think the investments we've made obviously in the product but also in customer success and the way we're engaging with our customers has helped us on the gross retention. And we said we've been making improvements on that incrementally. And then our expansion motion is doing really well as well. That is primarily agents, right? That's a very organic motion, but also cross-sells.

**Stan Zlotsky**

*Analyst, Morgan Stanley & Co. LLC*

Q

Perfect. Thanks, guys.

**Joon Huh**

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

A

Thanks, Stan.

**Operator:** Our next question will come from the line of Mark Murphy from JPMorgan. Your line is open.

**Mark R. Murphy**

*Analyst, JPMorgan Securities LLC*

Q

Yes. Thank you. I'll add my congrats. Girish, are there any products that you are incubating that are outside of the three or four main products you usually refer to which are particularly exciting in terms of market potential? I think we see some of them alluded to from time to time, Freshteam, Freshping, Freshrelease, Freshcaller. There's a bunch of others that are a little less in the spotlight, and I'm just wondering how you feel about some of those incubating products.

**Rathna Girish Mathrubootham**

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

A

Yeah. Thanks, Mark. So let me first say that we have plenty of opportunity in the three main product categories which we're playing in three really large market, but as a company that's focused on innovation, we'd always like to bring more innovation to the market. And primarily, if you look at Freshteam, so that is an incubation product in another very large market which is HRMS, but it's still very early days for us and so we are not really – let's call it like it's still in incubation, right?

So – and I think if you mention Freshping and Freshrelease, they are more like premium products which act as lead gen machines for us where we are bringing the right set of customers like people who are monitoring websites, the IT folks who could later on be upsold to Freshservice. So that's the primary reason for Freshping and Freshstatus.

Freshrelease is more of a project management tool that's integrated into Freshservice. That's sold as part of Freshservice as a unified ITSM product with project management. So Freshteam is really the incubation product that is in HR space, could be like big in the future but right now, it's in incubation.

**Mark R. Murphy**

*Analyst, JPMorgan Securities LLC*

Q

Okay, got it. Thank you. And then Tyler, as a quick follow-up, what was the effect that I think you said created a few points of headwind on the billings results? I just didn't quite hear that description and then do you happen to have the RPO numbers or do we wait until the 10-Q is released for those?

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Yeah. So – hey, Mark, let me start with the second piece. So RPO, it will be in the 10-Q. It's \$199 million for the quarter. Again, RPO is not super meaningful for us because we're not signing a ton of contracts that are greater than one year, but it is higher than deferred revenue. So that number's out there.

In terms of calculated billings, right, \$109.3 million and I said, hey, we had a little bit of headwinds on kind of reserves and things like that. What that is is last year, in Q2, which was COVID-impacted, we had to reserve out a ton of stuff. And then in Q3, a lot of that got reversed and so then when you look at the compare now, we're kind of running more in our normal run rate, but it actually is not as much of a benefit as we got last year. So that gives you a few points of headwind there, which I think we'll come out of. In general, we expect billings to kind of track with revenue growth.

**Mark R. Murphy**

*Analyst, JPMorgan Securities LLC*

Understood. Thank you.



**Operator:** Our next question will come from the line of Brent Thill from Jefferies. You may begin.

**Luv Sodha**

*Analyst, Jefferies LLC*

Hi. This is Luv Sodha on for Brent Thill. Congrats on a great first quarter. Wanted to first ask a question to Girish. Girish, maybe talk a little bit about that expansion opportunity, specifically with the larger customers. It's impressive that you had the 73% growth but could you talk a little bit about what products they were adopting? And is there an opportunity there to sell them multiple products within the suite that you have?



**Rathna Girish Mathrubootham**

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

Sure. Thanks, Luv. So, okay, there are two parts like let me first talk about the enterprise or the larger customers. So predominantly, we land larger customers with either Freshdesk or Freshservice. So if you look at most of the top large customers for Freshworks, they are all Freshdesk omni-channel customers who are usually – think of them as scaled B2C companies where the agent volumes are high and the automation needs are high and the support through digital channels also is increasing because of digital transformation. So – and Freshservice, being more mid-market, we also see that segment play into typically larger customers. So we land most of the mid-market and above deals with either Freshdesk omni-channel or with Freshservice.



Now, in terms of expansion, like the primary expansion motion for both these products is addition of agents. Now and also these two products, it's worth understanding that they are complementary products and there is no natural cross-sell motion between these two. But moving forward, like what we expect to see is and we are already seeing some signs of that as our Freshsales product that is new. We are able to actually sell Freshsales into an existing Freshdesk customer where they are able to buy Freshdesk and Freshsales or sometimes Freshsales and Freshmarketer along with Freshdesk. So that is a cross-sell motion that we think will continue to happen as our Freshsales product matures and gets more adoption.

**Luv Sodha**

*Analyst, Jefferies LLC*

Got it. That's very helpful and maybe one for Tyler. I wanted to dig in a little bit onto Stan's question earlier around net dollar retention. As we head into 2022, should we be expecting this elevated level to continue, especially as you see the improvements on gross retention? Could you maybe talk a little bit around that?



**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Yeah. Thanks, Luv. No, we do expect longer term to be kind of this 110% to low-teens net dollar retention business. Obviously, we're going to make every effort possible to continue to delight our existing customers and also get them to adopt more of our products and use the products that they have. And right now, I think we're doing a good job at that, but we would expect that number to come down.



**Luv Sodha**

*Analyst, Jefferies LLC*



Got it. Thank you.

**Operator:** Our next question will come from the line of Scott Berg from Needham. You may begin.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Hi, Girish and Tyler. Congrats on a good question and – congrats on a good quarter and thanks for taking my questions. I guess two here, Girish. Wanted to talk about partner impacting the quarter. You mentioned signing more than 50 new partners in the third quarter. But how would you characterize the overall impact of your kind of other partners on the new sales in the quarter?

**Rathna Girish Mathrubootham**

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

A

So I think, Scott, if you look at the partner impact on our overall business, I would say that partners contribute to approximately 15% of our business. That number hasn't really moved much from what we talked during the road show. So I think our inbound PLG brings in about 55% of new business for us. Our outbound is around 30% and then partners contribute 15%. But we are constantly adding partners and again, we have a ton of app developer partners but here, we are calling out the channel partners who actually resell our products.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Got it. Helpful. Thank you. And then Tyler, on the billings in the quarter, any sense on what the mix was like between monthly billings and annual billings? Did it shift significantly in the quarter versus what we've seen the last couple quarters?

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

He, Scott. No, there wasn't really any shift in kind of the tenure of the billings mix. I think we've broken that out in the past at 60-something percent as annual, and that's about the same as it was in the quarter.

**Scott Berg**

*Analyst, Needham & Co. LLC*

Q

Awesome. That's all I have. Congrats on a good quarter. Thanks, everyone.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks, Scott.

**Operator:** Our next question will come from the line of Raimo Lenschow from Barclays. You may begin.

**Raimo Lenschow**

*Analyst, Barclays Capital, Inc.*

Q

Hey. Thank you and congrats from me as well. Can you talk a little bit about customer growth and what we are expecting there in terms of like obviously things are getting better out there. How do you think about that growth trajectory? Maybe it's more a question for Tyler here actually. And then I have one follow-up.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Yeah. No, we're pleased with customer growth. Obviously, Raimo, we're focused on all segments of the business, so we've got this long tail of SMBs that we're closing and we think we figured out how to do that really efficiently. And then we have our kind of our field presence, that we're closing larger organizations in the mid-market and low enterprise and then in the partner segment.

When you look at our growth, in the greater than \$5,000 and then the growth greater than \$50,000, you're seeing solid growth. Now, the other thing, though, to mention is that our revenue growth is not just coming from the customer growth. We've actually done a pretty good job increasing ARPA across our customer base. So then our growth vectors are really bringing in new customers but also getting the customers that we have to buy more. And we've been doing well on both fronts.

**Raimo Lenschow**

*Analyst, Barclays Capital, Inc.*

Q

Okay, perfect. Thank you. And then, Girish, more for you. Like if you think you have a real innovation engine out there because you can see what applications on the enterprise are working and you can kind of, to some degree, think about what's needed in the SMB and mirror that, like can you talk a little bit about like the opportunity there to add more functionality? And we talked already earlier about some of the products in incubation, etcetera. But like how do you see that kind of opportunity in the long run? Thank you.

**Rathna Girish Mathrubootham**

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

A

Yeah. So I think broadly, if you look at where the industry is moving, so there are – like if you look at the world of customer service, so we are looking at a consolidation of customer service channels like omni-channel customer service where companies are trying to blend in traditional channels of support with modern digital channels and bringing in automation in those channels. So that is definitely a trend.

If you look at ITSM in the Freshservice market, so clearly you can see modern employee engagement, especially when employees are working from home. How do you like enable them to get whatever they want from the business and keep the IT workflows running? So that's a trend. But the most – the biggest opportunity and trend that we see is the breaking down of the silos between sales and marketing and support with a 360-degree product [ph] vision (38:15) and you can see large enterprises buying a customer data platform and trying to integrate their sales cloud and the marketing cloud and their service cloud to kind of build the Customer 360 profile.

So we think that Customer 360 will become a product category on its own, and more and more businesses will start to like want to understand their customers better and want the product experience for that. That is what we see as a big opportunity, and that allows us to sell more to customers because today, they are – the buying centers are still buying for sales or marketing or support, but we'll be able to offer them a more complete solution. And the good news is we are architected, too, as a plug and play where customers can start where they want, but then add on more. So I think that is where the industry is going.

**Raimo Lenschow**

*Analyst, Barclays Capital, Inc.*

Q

Perfect. Thank you. Sounds exciting.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Thanks, Raimo.

A

**Rathna Girish Mathrubootham**

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

Thank you.

A

**Operator:** Our next question comes from line of Brian Schwartz from Oppenheimer. You may begin.

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Yeah, hi. Thanks for taking my questions. Congratulations on your first quarter. I had a follow-up on the resellers that you added in the quarter. I was just wondering if there's a specific geography or specific market segments that these new channel partners are focused on.

Q

**Rathna Girish Mathrubootham**

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

I think there is no specific geography that is worth calling out, so we generally kind of focus on adding partners across the globe, but that tends to be like in non-English-speaking markets is where we tend to add more partners because it helps us reach and service their customers better. But if you look at our revenue mix today, like we are like what would traditionally be called international by a company, right, like everything outside of North America. So, that is close to, I would say, like for us North America is 42% of revenue. Europe, Middle East and Asia is another 40%-plus approximately. And rest of world is 16%. So, we are still heavily international. So, around close to approximately 58%, 60% international.

A

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Thank you. And the one follow-up question I had was also just related to the two markets that you're focused on. Was there any divergence in what you saw in terms of the bookings between the business in North America versus the business in Europe and Asia? Thanks.

Q

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

No. Hey, Brian this is Tyler. It was really consistent. We didn't see any kind of movement in one area versus another this quarter. I think, if anything, we've got our inbound motion, which is completely global, right? That is just accessing kind of you can imagine almost every single country out there. And then our field presence is really Europe and North America primarily with smaller presence in areas like Australia. And so, just in terms of our bookings, we would expect from the mid-market and enterprise, more of it to come from North America and Europe, which it does.

A

**Brian Schwartz**

*Analyst, Oppenheimer & Co., Inc.*

Thank you for taking my questions.

Q



**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

You bet, Brian.

A

**Operator:** Our next question will come from the line of Brent Bracelin from Piper Sandler. You may begin.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Good afternoon, and Happy Diwali. Girish, there's a clear talent shortage in the US. This has emerged as a new risk factor for a lot of growth companies. I'd be curious to hear if you're seeing a similar talent shortage scenario in Chennai. I mean, outside looking in, it seems like having a large engineering footprint in India could be an advantage. But I'd just love to hear your thoughts on the talent, your ability to hire, particularly given your footprint there in Chennai.

Q

**Rathna Girish Mathrubootham**

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

Happy Diwali to you too, Brent. And so I think, globally, every company understands that its talent is super critical, right? And I think we are seeing like – we really think that our location advantage with having access to a high quality talent in India is a strategic advantage for us. We have like all of our R&D there. And so we are able to kind of attract. So, we are the most preferred SaaS startup to work for in India now, and definitely the best one in Chennai. So, I think those are what I would call as advantageous for it. But if you look at the startup activity that's happening, et cetera, so I think every company and also the post-pandemic world like there is always a demand for talent. And I think we are probably better off than most companies, thanks to our advantage of being based in Chennai.

A

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Helpful color there, I guess. Tyler, follow-up for you here. I know Freshdesk and Freshservice are the product stars here, but I'd be curious around the momentum you're seeing. I know it's early with Freshsales, but are you seeing that expand the land footprint from new customers? Are you seeing that being kind of cross-sold in the installed base? Any sort of early color around Freshsales and the early kind of wins you have there? Is there any sort of like cohort or pattern developing on the type of customers that are embracing Freshsales would be helpful? Thanks.

Q

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

Hey, Brett. We're actually – so, it's all of the above there. We have customers who are coming in at pretty large scale and choosing Freshsales as their CRM of choice. One of our active motions is looking at our Freshdesk customers and really having them take the advantage of having Freshsales and freshmarketer, so they have this unified view of their customer, which we're seeing really good initial feedback on. And then, obviously for customers in the SMB all the way up, it's a very attractive solution because it's so easy to on board and really, really use quickly. And so, to answer your question, I think the larger motions are probably going to be on the SMB to the mid-market, but there's definitely some larger companies that we are winning there as well. It's early though, I'd like to say.

A

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Yeah. Definitely appreciate the feedback there. And then pushing it certainly, but color there is super helpful. Thank you, guys.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

You bet.

**Operator:** And our next question comes the line of Brian Peterson from Raymond James. You may begin.

**Brian Peterson**

*Analyst, Raymond James & Associates, Inc.*

Q

Thanks for taking the question, and congrats on a really strong quarter. Just one for me. If you think about the SMB opportunity out there, I'm curious what you're seeing in terms of customers potentially looking at this Customer 360 vision? Are they at the point where they're looking to buy multiple products at the same time or are we still in an environment where it's kind of starting with one seeing the vision and adding on? And obviously, that may be some sort of an evolution. But I'm curious when do you see that potentially changing for the smaller customers out there. Thank you.

**Rathna Girish Mathrubootham**

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

A

Yeah. And thanks, Brian. I think – see, today customers are like even if they are buying from three different vendors, they are buying three products like – a good example would be like a SMB D2C brand that's trying to sell online, right? So, they are – when they're trying to support customers on digital channels, so they are buying a support solution and then they may want to buy a marketing solution to run marketing campaigns on like digital channels like WhatsApp or Instagram or text messaging based on which part of the world they are in.

And they also have bots and automation for like self-service of customers. So, they are buying like two or three different products. So, if we have – like what we offer is a [ph] suite (46:10) strategy for customers to be able to buy like a combined solution. They are not just calling it 360, these SMB customers, so – but they are looking at how can we engage with customers and have one platform to engage with customers? So, I think it's happening as we speak.

**Brian Peterson**

*Analyst, Raymond James & Associates, Inc.*

Q

Great. Thank you.

**Operator:** Thank you. Our next question comes from that of DJ Hynes from Canaccord. You may begin.

**DJ Haynes**

*Analyst, Canaccord*

Q

Hey, guys. Thanks for taking the questions. Girish, how much of the traction upmarket would you say is a pull versus a push motion today? And I guess if you think about the go-to-market investments that you're making, is there an emphasis on any one of the three sales channels that you've highlighted?

**Rathna Girish Mathrubootham**

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

A

So, I think it's kind of both where it's – a lot of it is the pull happens through our product-led growth motion. As I already mentioned, 55% of our new business comes through our inbound channel, but not all of that is SMB, right? So, some of it is teams from larger companies, so that is part of [indiscernible] (47:21). But we also have a mid-market team which is going outbound running events and campaigns, generating leads. So, it is like we have investments in GTM to go after larger customers. We also have product-led motion contributing to that. So, it's a mix of both.

**DJ Haynes**

*Analyst, Canaccord*

Q

Okay. Got it. And then, Tyler, you got a handful of questions on billings. And just given you're still new to the public markets, maybe you could just talk about like the usefulness of billings as a leading indicator on growth. I mean, some companies say like, yeah, it's pretty good if you look at it on a rolling four-quarter basis. Other companies say like, no, don't pay any attention. Like, where do you guys stand on that?

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

I think, in general, and thanks for the question, DJ, I think in general, billings will track our revenue growth in the longer term. For us, what we had said in the roadshow, if we saw any extreme anomalies in billings, we call them out. Our calculated billings were 41%, and they – I did say already, so we called out the anomalies that we saw that created some headwinds in the billings number. But in general, we're pleased, really pleased with the results.

For us, if we see a meaningful change in our billings mix, meaning that the way customers are paying us, whether it's annual or monthly because unlike a lot of enterprise software companies who have mainly annual or even sometimes multi-year payments upfront, we have a mix of customer, right? We have this long tail of SMB and a lot of those customers are paying us monthly. And so if we see a change in that, that would cause some anomalies in the billings number, we'll call it out on the calls.

**DJ Haynes**

*Analyst, Canaccord*

Q

Yeah. Perfect. Makes sense. Congrats on getting the first one out there. Thanks, guys. Thanks a lot.

**Rathna Girish Mathrubootham**

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

A

Thank you.

**Operator:** Our next question comes from the line of Pat Walravens from JMP Securities. You may begin.

**Pat Walravens**

*Analyst, JMP Securities LLC*

Q

Oh, great. Thank you. One for each of you, if that's okay. So, Gi, I love that you went with Zach Nelson as a board member. I'm sure most people on this call know, but – anyway, doesn't he ran NetSuite for 15 years before it was sold to Oracle? And I'm sure you had your choice of people to put in that seat, and I would just love to hear what the factors were that caused you to pick Zach.

**Rathna Girish Mathrubootham**

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

A

No. First of all, Zach is a fantastic leader with a great public company experience, has seen scale, taking NetSuite to like \$1 billion dollars of revenue and beyond and even post the acquisition from Oracle he was leading it, really adds to our board capability in terms of having a good public company experience and adding to our governance. So, I think, more importantly, Zach is not on, like, five or six boards, like he has the time to spend with and mentor us. And NetSuite, if you think, was the original, the first, like, SaaS company selling to a lot of SMB mid-market customers. So, that experience and the domain experience, all of that – it was super hard. We were glad that Zach was available for us, right? And so I think he's an incredible mentor.

**Pat Walravens**

*Analyst, JMP Securities LLC*

Q

Yeah, great. And then, Tyler, two sort of quick ones for you. First of all, you're not guiding to it specifically, but any comments that you can make about how investors should think about growth next year, I think, would be generally appreciated. And then also just any sort of quick summary on the early lock-up release, so that's on top of people's minds.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Okay. Yeah, for sure. Thanks, Pat. So, we're not commenting on next year right now. Obviously, I think we'll do that as we end our Q4. But for in terms of the early lock-up, we put out a press release on Friday. This was something that was part of the S1 and negotiated as far as going public. We trigger a 20% unlock across our employee base. That will come on Thursday, but what's important to note, doesn't cross the entire base of entire shareholders, which clearly that's not all going to hit the market on Thursday. The one thing that we know will hit the market is just the sort of covers for tax purposes [indiscernible] (51:46), and that should be executed.

**Pat Walravens**

*Analyst, JMP Securities LLC*

Q

Great. Thank you very much.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Thanks, Pat.

**Operator:** Thank you. Our next question will come from the line of Rob Oliver from Baird. You may begin.

**Rob Oliver**

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

Q

Great. Thanks, guys, for taking my question. Thanks, Girish. Thanks, Tyler. Just one and then a quick follow-up. Obviously, a lot of mid-market strength here from you guys. And I know Freshservice is where you guys have traditionally landed. But just wondering on a couple of fronts whether you're noticing any shift on that land with the Freshdesk being – product being so strong and heavily in demand as mid-sized companies try to digitally transform, and kind of how those relative pipelines look headed into Q4. And then just had a quick follow-up. Thanks.

**Rathna Girish Mathrubootham**

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

A

Yeah. I think both products, like, operate in large markets and we are seeing healthy growth across both. So, in terms of comparison, I think Freshservice probably, like, is growing a little bit faster than Freshdesk because of the smaller base, and so Freshdesk being our largest product. But we see a continued demand because these are two completely different set of buyers, different dynamics. So, I think in Freshservice market, I think we are the best alternative to ServiceNow and we are seeing a lot of demand from the mid-market where we are getting pulled into those deals. In Freshdesk side, I think it's a little bit more fragmented where we have good companies or customers of all sizes, right, from SMBs to the really large companies coming to us, and so it's a more diverse set of customer base.

**Rob Oliver**

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

Q

Got it. That's helpful, Girish. And then, you mentioned at the outset that you guys have the user conference next week, and probably for a lot of investors, that'll be – these public market investors, that'll be the first one they've attended. So, just curious, Girish, from your perspective, or Tyler, if there's anything you guys wanted to point to. I know there was a question earlier about [ph] Neo (53:57), maybe a little early [indiscernible] (53:57) there, but just was curious from a product evolution perspective, platform perspective, if there's anything we should keep our eyes out for next week in Vegas. Thanks, guys.

**Rathna Girish Mathrubootham**

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

A

Yeah. I think I would like to invite all of you to join virtually, and so we have some exciting announcements – customer stories, and platform announcements to make, so – and – so, it's mostly virtual. We are limiting physical presence due to COVID, but I would like to invite you to attend.

**Rob Oliver**

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

Q

Great. Thanks again.

**Rathna Girish Mathrubootham**

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

A

Thanks, Rob.

**Operator:** Thank you. We have Alex Zukin from Wolfe Research, has your next question. Your line is open.

**Joshua Tilton**

*Analyst, Wolfe Research LLC*

Q

Yeah. Hi. This is Joshua Tilton, on for Alex. Thanks for taking my questions. First, I was hoping, could you just comment on what you're seeing from a demand perspective? And if you could just maybe compare and contrast that relative to pre-pandemic levels.

**Tyler Renwick Sloat**

*Chief Financial Officer, Freshworks, Inc.*

A

Hey, Joshua. This is Tyler. I'll take that. Demand is strong. I mean, we – in pre-pandemic, it was strong. We're growing fast then. I mean, all our historical numbers are there and I think we're still growing at an incredible pace. Clearly, we saw in the SMB side as we went through COVID, there was customers who experienced pain specific to some verticals; hospitality, travel, things like that. But as we talked about the growth rates and how last quarter benefited from a strong – a weak prior year, we also talked about how we came out of it in Q3 of last year, and a lot of our customers came out of it and then we saw acceleration even from digital transformation, which is just kind of core to what we do, specifically because our products are so easy to use and get onboard. So, we saw a lot of customers take advantage of that, and I think that's still continuing today.

---

**Joshua Tilton**

*Analyst, Wolfe Research LLC*

Q

And maybe just as a quick follow-up. Any comments on the competitive landscape? Maybe could you just mention which of your competitors are you seeing your win rates go up against across your three product areas?

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**Rathna Girish Mathrubootham**

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

A

So, I think if you really look at our three product areas and look at it across three – or primarily [indiscernible] (56:17) go-to-market motions, so in the product-led motion like predominantly in Freshdesk, we compete against, say, Zendesk or we compete against Service Cloud on the enterprise side or legacy players like Oracle or SAP. So, on the inbound side, we don't track a lot of win rates because customers come online and they – it's more assisted buying rather than consultative selling. So, we see wins across – in mid-market specifically, we track all of these win rates, but we see deals that we win against Zendesk are in Freshdesk. In Freshservice, we actually win against Atlassian or ServiceNow, meaning we go on to bake off the ServiceNow, so we have one against them. So, we don't have any win rates to disclose per se because they're still tracking it at different levels. But I can talk to you about who are the competition that we see in each one of these market.

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**Joshua Tilton**

*Analyst, Wolfe Research LLC*

Q

Thank you.

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**Operator:** Thank you. I'm not showing any further questions in the queue. Thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.

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