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MANAGEMENT DISCUSSION SECTION

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Greetings. I want to thank everyone who's dialed in for today's presentation. It's Day 2 of the Oppenheimer's 26th Annual Technology Internet and Communications Conference, and I'm thrilled to have with me Freshworks and presenting for the company is the Chief Financial Officer, Tyler Sloat. So Tyler, welcome, and we're really glad to have you here. It's been a really good year for the business. But maybe we have some new listeners on the call here today. So is it okay to maybe just, in terms of level-setting the discussion, share with the audience from a really high 20,000 feet view, a brief company background and the problems the company is solving for your customers.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

Absolutely. And first of all, Brian, thanks for having us. We're excited to be here. We've been doing this long time with you, so it's great. Another year. Freshworks. Freshworks, we're a software company. We were founded in 2010, kind of when the promise of SaaS was supposed to be modern, fast, great user experience software. But what our founder had seen, first of all, driven by a customer service experience that he experienced himself, is that, a lot of these software has actually become pretty bloated and gone away from that promise. So he says, it's time to build something new. And so we started with Freshdesk, which was kind of a modern alternative to support software at the time, really thinking about the end user, not necessarily the C-suite, but really the users of the product and really designing it for them.

And over time, we stayed true to that DNA, meaning that that's reflective in the usability of the product, the user experience but also the onboarding, but also what we considered it to be kind of the TCO. And really thinking about the SMB first and building for that customer base. What has happened then over time is that, we've continued to innovate, and we have a technical advantage because a lot of our employee base is in India and always has been, we're founded out of India, but really always been a US company, but founded out of India, and the heartbeat of our company is still in Chennai. That technical advantage allows us to innovate really, really fast. And that's been also our ability to have multiple products, but also to be able to keep ahead in terms of what the latest in innovation is.

We move from customer support software and really think about the customer first and the user of the software itself, but really how our customers are engaging with their vendors, which really turn to more conversational messaging as opposed to traditional ticketing, which has been a big focus of ours. We then saw a bunch of our customers using our support software, Freshdesk, for internal IT use. And we said, okay, that's great, but you actually really need a purpose-built solution. So we've built Freshservice from scratch to be a purpose-built ITSM solution. And that is now a product that's really positioned competitively really, really well, and there's great market dynamics for our Freshservice product, which we've said is our fastest growing product and our largest contributor of ARR.

We then think there's the same opportunity in CRM. And so we started with Freshsales and then added Freshmarketer to it. And now we have brought over with our announcement last week our Freshchat product on to what we call our UCR, which is our unified customer record, and fully integrated that with desk. So we can provide a seamless solution for marketing all the way through to support for our customers, which we're very, very excited about. So three main product lines playing in huge markets, servicing kind of the SMB all the way up to the enterprise. But really more low enterprise is what we're really focused on, and doing it on a global basis. And so we think we have a huge opportunity in front of us and great opportunity to grow.

QUESTION AND ANSWER SECTION

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

That was a great background. It's a perfect level set for our conversation. Let me ask you another kind of broad question here. Just what are some of the things that have you most excited these days for Freshworks?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.
A

Yeah. First of all, I'm really proud of our Q2 performance. We've been able to, let's call it, weather any kind of macro pressures over the last year-and-a-half. We actually started talking about it at the end of our Q1 2022 call, which we've said, hey, we see some pressure on expansion and SMB globally is seeing some pressure. We may never come out of that. New businesses continue to be strong, even though our expansion motion has come down a bit. But at the same time, we've kind of moved to operational efficiency.

So we really put up great numbers on free cash flow and non-GAAP operating income. We're going to continue to do that while focusing on growth. And so I think the execution across the board has been really exciting. The things I get most excited about are the continued innovation that we're doing, some of the AI initiatives that we have rolled out, but also the new products outside of AI like Freshservice for business teams, which is playing in the ITSM space, but the adjacent functions for internal employee facing products that we have. And those are huge markets that we're really just starting to go into and getting good reception from our current customer base. So lots of things to be excited about.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

Great. One answer just to question how you balance the investment side of the growth initiatives. You talked about you have these three big product lines, well, we can call them product families. How do you balance the investments, the product investment, the go-to-market investment in these different business segments? And then since you're the CFO, if we do see a mix shift at all in these different product lines, does that have a potential impact on the margins?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.
A

Yeah. So we have three main products that you just described. We also have three go-to-market motions. We have an inbound motion, which really feeds 100% of our SMB customer base. SMB for us is 250 employees and below. And also that bleeds over and feeds some of our mid-market and enterprise customer pipeline as well. We have an outbound motion which is really, think of it as field sales that we've built out presence mainly throughout North America and Europe or parts of Asia as well, that are more traditional sales that there's SDRs, built any pipe BDR, SDRs, SEs, sales reps, they tend to be more inside sales than big enterprise reps, but that's an outbound motion. And then we have a partner motion, that have hundreds of partners globally that we're really utilizing primarily in geos that we don't have physical presence or in areas that can supplement onboarding and things like that.

And so think about these three products across three go-to-market motions. When I think about investment, we have been building out the field, which is probably the biggest investment when you think about human capital for the last couple of years. And it really has been kind of a new muscle for the company because the company was built on inbound SMB-first and it kind of moved up from there. And so we have a lot of, what I would call, almost sub costs, really, we have it there. And coming into this year, we had the opportunity to tweak a lot of that. And we talked about, okay, we're making changes to some of the field motions that we're doing, we're making sure we're being efficient there. We've added a lot of new leadership there, but we already had invested a lot. So it was a lot of tweaking as opposed to new investment. And I think we've done a really good job of, say, okay, let's make those tweaks. It doesn't mean spending more hiring more necessarily. It really means making sure we have the right people in the right places.

On the inbound side, it has a lot to do with digital and how we build that top end of the funnel, as well as optimizing for organic search and then optimizing for what would drive the PLG motion, which is that product like growth, which is really the in-trial experiences and we're very focused on that. And then we've also hired a new head of partners over the last kind of six to nine months, and he's building our team. So really I think there's a lot of upside what we can do with our partner group. So we think about go-to-market, we are absolutely continue to fund and invest in go-to-market, we'll continue to do so. But we've been very focused on efficiencies there, and what we get back for every dollar we put in. On the other functions, last year we talked about like, I already mentioned, one of our advantages that we have access to a highly technical human capital base in India. And we have been hiring really a lot kind of quarter-over-quarter.

If you look at how many employees we have on a per revenue basis compared to some of our, say, various SaaS peers, we're much higher. It's also what's been allowed us to have three main products and being able to innovate like that. What we were able to do is really, okay, let's make sure we're hiring really prudently, hiring the right people and being pretty selective. So we did slow down some hiring which is helped us, but we didn't have to do any dramatic changes in the inverse of hiring or letting go. And that's really been something we're going to continue to progress on. And so this balance of bottom line efficiency versus growth, it is about, hey, think about how can we do both, how can we continue to become more efficient, produce more cash, produce more non-GAAP operating income, but also make sure we are fueling our go-to-market motions, which we do think we have the capability to do both.

What I've said is that, the changes that we've made to free cash flow and non-GAAP operating income this year, then won't be as dramatic next year. We shouldn't expect that. But we will continue to progress and then theoretically how do we grow revenue faster than we grow our expense lines, and it's just a good rule of thumb, I think.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

Yeah. Sounds good. Glad you pointed that out too. Our model is up at 200% operating margins in five years. But Tyler, I wanted to just ask you the macro update question, and our listeners are interested in it. So maybe I'll phrase it this way. The business reported really strong 2Q results last week. So what can you share with us in terms of what you're seeing or monitoring in terms of demand trends across your core end markets and possibly geographies, if you could shed any light on that.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.
A

Yeah. I think if you look broadly, when you say macro, we talked about the biggest impact starting at the beginning of last year. And when you think about one of the biggest drivers for growth for us was expansion, and expansion as we land, we can land relatively small and then really grow with our customer base. And the expansion motion was really driven by agent additions. So as the customer hires new employees, [indiscernible] (10:52) support site, they hire new support agents, things like that, on the press service side, they hire new IT individuals, they're having to buy new agents. That slowed down pretty dramatically over last year, and we've been pretty open about that. As a result, our expansion motion and then our net dollar retention decreased, we were at kind of this 115, 114 when we went public. We said, hey, think of us as a 110 net dollar retention because that's where we think the normal rate is. And we're now at 107, 108, and we think it's going to come down to 105, 106, it's just the way the numbers work.

So that has been an impact to us. The flip side though, we've been able to really have some really great progress on new customer growth, and that new customer will fuel future expansion. But the biggest impact to us from macro has been on that expansion. I think we've weathered that pretty well, and we were one of the first ones to talk about it over a year ago and really have built it all into our numbers now.

Going forward, what we're very focused on is how do we grow with our customer base outside of age and addition. And so that's either going to be a combination of cross-selling, which I don't think we've done an incredible job of in the past, and I think we have a huge opportunity there. Moving customers up the addition stack to get access to increased feature functionality. Adding new products clearly is another one that we can gain more revenue from our customers if we provide them access to great new products.

And last one is a little bit of price taking, which we've never really used price as a leverage in the past. And we've done it slightly, a little bit with one of our products this year and really seen very little impact in terms of churn or anything else. And so when you look at that, that's how we're trying to look at macro and say, okay, how can we rejuvenate expansion, assuming that customers aren't going to just go back to hiring. If they go back to hiring, that's great. We will be able to benefit from that, but we shouldn't be able to count on that. When you look at broader like what areas, I'd say APMEA, like kind of the broader APAC regions probably have had the highest impact from a macro. Initially, at the beginning of last year, it was really Europe, and I think that they feel better now there. North America is strong. And I think for us what's interesting is that, we're playing in such three huge markets and we're still relatively small across all those markets, we have plenty areas to grow regardless of what's happening from a macro perspective on a new business side. And so we just have to continue to be really good at innovating and then getting great at bringing those products to market.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. That was real helpful, Tyler. I appreciate that. Let's bring it back to company-specific initiative in terms of the move-up market in that strategy. So again, it's been more than a year the company, the business has been focusing on moving upmarket, acquiring larger size business, bigger size deals. So a couple of questions on that. I'll just start with the first one. Why does that market look underserved or at least ripe for disruption these days?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. So I do want to clarify, when we talk about moving upmarket, it's not like we're focused on, say, Fortune 500 or something like that. We're really focused on the Fortune 500,000. But it's driven by a couple of things. Number one, we now have the right to go engage with larger customers because our products have the feature functionality and everything that those customers need. So that's our first thing, specifically Freshservice and Freshdesk. Freshservice, which has been a huge driver of growth for us, is just really positioned well competitively. So if you think about ServiceNow, which has been very open about focusing on very, very large companies, you think about at the lower end, you've got Jira Service Management and you've got ManageEngine, which is really focused on a lot of SMBs, and then you have a lot of legacy on the side, which is the BMC, Ivanti, Cherwell, Remedy kind of stuff.

We are regarded as kind of the number one SaaS enterprise alternative outside of ServiceNow, and we have been leaning in and absolutely will continue to take advantage of that, and been getting great response from customers, whether it's take-outs of legacy or customers getting off of ServiceNow because we can demonstrate that we can do what they need while saving them a ton of money or greenfield. So we're seeing the high end of SMB. SMB for us is 250 employees and below. That high end of SMB, companies who are purchasing their first ITSM solution, we can come in there, give it to them at a great price, but also get them live very, very quickly, which is in the DNA of how we build software, and then demonstrate over time that we can provide them all the feature functionality that we need. So it's just really, really well competitively positioned in Freshservices.

Freshdesk is kind of same thing. There's been a lot of noise in that whole support market from Zendesk kind of going private. Salesforce is still the behemoth, but what's really happening is that, the whole market has changed because the way end users or end customers engage with their vendors is complete changes, move away from ticketing and e-mail and calling to more conversational support. And that's something that G and our product leaders saw years ago, and that's why we moved more to things like Freshchat and in supporting mediums like WhatsApp and Apple Business Chat and things like that. And now a lot of our new AI stuff around what we call Freddy Self Service and trying to enable a lot of those interactions to be solved seamlessly, which is best for the end customer as well as with our customers.

That is where we are leaning in and that's where we think the market will continue to go and that we feel like, okay, we saw this when we started building it. It has allowed some point players to come up, but we are the ones that still can provide a full omni-channel experience where we have traditional ticketing through our desk product, now chat and capabilities to bring your own caller or we have a Freshcaller product and have this whole omni-channel experience. So we're excited about continuing to lean in there and capture more market there as well.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

And how far along are you in terms of the sales efficiency curve for this initiative? And then are there still meaningful changes that are needed to optimize the sales organization or even the platform to serve slightly larger customers than they did in the past?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. I mean, we've built out the field kind of mainly North America and Europe, but I'd say we're tweaking, and we're going to continue to tweak and make changes. And I think that's necessary. And so it really is focused on, do we have the right people in the right places, but are we attacking the markets in the right places, can we change the way we market, can we shift dollars from digital to field to programs, everything else, and we're going to continue to tweak along those lines. We're also very focused on that inbound and how do we continue to optimize inbound, which is very important for us, especially capturing the SMB.

And that's a continual journey, you have to continually look at your in-app experiences through trial, everything else, and continue to tweak those. You have to look at how you optimize for organic search. And so we're not done at all. And do I think we still have efficiencies to go? Absolutely. I don't think we're as efficient as we can be. But that being said, I also believe and I know we need to make investments to be able to get there. And so we're not going to sacrifice growth for profits. We're going to try to do both, and we're going to continue to invest, but we are going to push the teams to be as efficient as possible.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Let's talk a little bit about products and kind of the trends. You've done a great job level setting all the different products that the company talks about. Maybe we'll start with penetration. How do you think about the product penetration opportunity within the install base? Is there an average per product or a package that how do you think about that opportunity?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Do you mean that for current customers, like how...

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. For the current install base, how do you expand the penetration or even move them up into higher priced tiers? How much room do you see there?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. I think there's space. I mean, again, the different products act differently. Freshdesk, which is a customer service suite, plays from the SMB all the way up. And actually our largest customers tend to be support customers who are B2C businesses with high agent accounts. And a lot of those customers started when they started small companies and grew or we started with divisions support and we've actually expanded. And so that opportunity, it's still part of our sales motion. We're not landing with huge deals and we oftentimes don't land with them, with like a full company. We think it's a very large – we had some very large customers in terms of very big customers, but we might have smaller deployments there. So I think we have a huge opportunity to go through success and then go proliferate with that.

On Freshservice, it's a little bit different where we are taking over kind of a full ITSM capability for a lot of our customers. But on the same side, we're also landing in some cases in subs that might be ServiceNow shops, but that group like they couldn't spend a $1 million to go put in a small IT solution. Internally we can get in there for $50,000 and demonstrate that to them and then use that as a Trojan horse to get in, to prove our success throughout the entire organization. That is like, we're just scratching the surface on that kind of stuff, and now with Freshservice for business teams, which really is a new product over the last couple of quarters. That one is another way we can enter because that's going to enter into the HR departments, to the finance departments, to procurement departments, to facilities departments, and demonstrate success there and then hopefully proliferate even if it's just within those other functions, that'll be just fine, because there's a lot of revenue to be gained there.

So I think there's tons of opportunity. I talked about two other things, it's like, well, add-on products, so we're going to continue to do that and get the add-ons. Right now we're at 25% of our customer base that use more than one product, that really is driven by add-ons. It's not really customers using more than one of our persona products or one of our three main. Cross-selling, which should be across those three main, where we haven't been incredibly good at it, and we're now starting to focus on that. And that, I think, is a huge opportunity for us. And then price, like I mentioned earlier, part of the DNA of the company is really provide great software at a great value and that's going to continue. But what that's meant is that, over time, we've added feature functionality for years across all of our products. We haven't necessarily increased price or asked more from the customers who have been there for years.

And so Freshservice in particular, which we've innovated a ton on, we said, okay, at the beginning of this year we raised prices by like 4%. And then we looked at our customer base, and as they've come up for renewal, I don't think about it as raising price, I just think about more reducing discounts. And ones that had really dramatic discounts, where we've given them a ton of new functionality over the years is like, ask them to pay a slightly more amount. We've gotten very little pushback on that. And I think that is just emblematic of, okay, there's a lot of value to be made there. That continues, like we're not continuing to increase price, but customers come – Freshservice tends to be annual deals. And so every quarter, think about it is like 25% is coming up for renewal. And so that's going to continue. And then obviously the new customers that we're bringing onboard there, they're paying slightly different price.

This is all being reflected in higher ARPAs across the board every single quarter for the recent history. And we're going to continue to try to push that. I do want to be clear, though, Brian, on that, because I've had some vendors come to us where we had some renewals in software that prices are literally going up 50%, 100%. And I think that's egregious. And what it's doing is, it's really making CFOs think about, hey, I'm going to get off this product because I don't think that's a great partnership. We are not doing that and we don't have any intention of doing that.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Just really sticking into the customer.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

[indiscernible] (23:20).

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

[indiscernible] (23:21). But good for you. Good for Freshworks business. Hey, wanted to switch topics now and want to talk about Freddy. And I'm not talking about Freddie Mercury from Queen, but talking about your generative AI platform. So you had a big announcement. You've been in AI for a long time of the business. But I guess, it was two months ago. It was in June. You announced significant product updates and expansion to the Freddy AI platform. Maybe we'll just start level setting. Can you maybe share some of the common use cases, so we can understand the real-life value creation of AI in your end market.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. So as you mentioned, we've had Freddy, which is like our little name for our kind of internal AI. Freddy has been driven mainly from all the data that we have internally. So think about it as a small language model. And now, with ChatGPT, it's like, okay, how do we take all the data we have internally but then supplement it obviously with what we can learn from ChatGPT and segregate out those things. I want to be clear, we're not sharing any of our customer data out. We have this segregation, but really create products that are going to provide a lot more value to our customers. And so we really have announced three different things; first is Freddy Self Service, the next is Freddy Copilot, and the third is Freddy Insights. So let me go through each one because you asked me like how this can be reflected in the products.

Think about these as not products but more of features and functionalities and things like that. So Freddy Self Service is really going to be utilized most in chat, what I anticipate. And right now, we have our Freshchat product which we changed the pricing on last week, that really came with a whole bunch of bot sessions entitled. So when you bought a Freshchat user, you got a bunch of bot sessions. And then as you use it, you had to buy new packs of bots. The bots are what enables a end customer conversation to happen with our customers on what is called Level 1, Level 2 type of support things without any human intervention. You ask a question, it could reply back to you immediately, understanding what you're asking and giving you an intelligent response. With new ChatGPT, those responses can be much more intelligent, much more insightful.

And then combining that with our obviously internal knowledge about that customer themselves and then everything we know about support, being able to really provide our customers a way to really efficiently engage with their end customers and doing a great experience. Our expectation is that, this is going to increase bot usage. And so what we've done is, we changed the entitlements on bots so that when you buy a Freshchat user, you actually get a lot fewer bots included and increase the price on additional bot packs. Historically, we've actually not been focused on monetizing bots. We've really been focused on the utilization of bots. We wanted our customers to use it. As you know, for AI, you have to train all these models. So the more usage you have, the more they get trained and then the smarter they get. And so we've been very focused on that.

Now, we're saying, okay, Freddy Self Service, the monetization is going to come through bot sessions primarily, and we've just increased the price. This is already – the price has already been rolled out. We haven't announced when exactly all of the AI features are going to be in Freddy Self Service or available through Freddy Self Service and bots. But it's already starting and we're already abating this a lot with our customers. I want to be clear that because we just changed the price, it's going to be reflective – this is for new customers coming on board, and then as companies come up for renewal, we'll be migrating them to the latest and greatest of chat and then essentially changing price. But it's going to take a while for that to filter through. So I haven't built any expectations into our numbers on this, but I'm really excited about what can happen there.

The second is Freddy Copilot, and thinking about Freddy Copilot is how do we – the first was Freddy Self Service, how do we end the customer experience through self service. Second is, for agents, how can we actually make them much better jobs. And Freddy Copilot essentially is going to be – think about it as an assistant sitting with the agent and doing things like autocomplete or rephraser, natural language conversion into different languages and things like that. And so that capability, we said, okay, the price is going to be an add-on pack of $29.99 or $29, and that's going to be available. We haven't announced a date. That will become GA hopefully towards the end of this year. And again, we're already bidding with a bunch of customers. And again, we want to make sure that the models are completely trained. We can demonstrate a lot of value, which would then justify the price and then really can go in to our customers.

Number one, show them that, okay, we can make your agents much more efficient; but two, provide a great experience for your end customers. In doing so, the expectation is that, they actually would need fewer agents, but we came up with $29 by looking at, okay, what do we know about the customer support world, which we know a lot, how do we actually demonstrate that through fewer agents, you can save money, we might have a lower agent cost, but through the add-on pack we can actually make more. So the goal here is to be able to demonstrate that our customers can save money, but we can actually have more revenue. And so it's not going to be perfect. We're going to have to learn some things through that. But that's how we came up with that first price.

The third is Freddie Insights, and Freddie Insight is – we've talked more about, okay, what we're building, but there's no data or pricing yet. We're figuring it out. And this one is going to be one that's really about, okay, how the management of the entire, say, support function or ITSM function through Insights into your entire customer base, but also how your agents are doing and everything else. And that one I'm pretty excited about, that's the third coming behind the other two.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

Sorry. I was muted. First of all, Tyler, we hear you fine. Just to let you know.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.
A

Okay. Great. I don't know what's going on with the video.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

Yeah. We hear you fine. So I think you answered the question because I was going to ask you when you thought that Freddy and the AI strategy to move the financial needle. But I think you said, maybe you do have internal plans, but I think you did said that you haven't built anything yet. So this is all potential gravy, I guess, in the current plan. Are you back?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.
A

Exactly. So I just took the background away. Exactly. We haven't built in the revenue, what potential upside. We're assuming a lot of learnings here, but I think that we're excited. I've seen the products. They are on beta and I think it's going to be pretty exciting.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.
Q

Yeah. Terrific. One follow-up question just on the NRR, or the install base spending opportunity. So you mentioned that in the past the company has been at 115%. Actually, still, we're kind of there in constant currency, too. So in terms of the hiring market, in terms of IT spending trends, obviously you can't control that, but you can control pricing and you can control your cross-selling initiatives and strategies. So I guess the question is, is it possible for the business to get back to near those type of rates without having the improvement in the stock that you can't control the macro or the hiring? Obviously, that would help, Tyler. But is it possible to do it on your own?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. So I look at this as, okay, there's two sides to the same coin, one is churn and one is expansion. On the churn side, when we went public, we said, hey, we're kind of low 20s percent dollar churn as a company. I think we've done a really good job of kind of move, that is not one that you can move quickly. But what we've done is, we've been able bring that down to kind of high teens to mid-teens on churn. So we've already got basis point improvement in net dollar retention, just purely on churn reduction. And I still think we have some improvements to go there. Again, it's going to be very slow. We've said that churn slightly ticked up this past quarter.

We had expect that to tick up in Q1, but it didn't tick up as much as we thought. It had been stable the quarter before that and then we have been making good progress on churn before that. And so we're trying to keep it stable and make improvements. That's going to be driven by, again, moving to larger deals or larger customers. They tend to pay annually in advance, they can be stickier, but also the Freshservice, which is the fastest growing ARR product, has great churn characteristics and just great characteristics to it in general. And so that one we're going to get continue, so that's one side of the coin. So the other side of the coin is the expansion, which we're being very open about.

Okay, our care expansion motion, which was largely dominated by agent additions and still is, really got hit with macro and company [indiscernible] (32:43). So we are very focused on how do we grow with our customer base outside of agent additions. And yes, I do think there's opportunity once we stabilize and say this 105, 106, to actually start growing with our customers outside of agent additions while making slight improvements to churn to slowly get us back up, and we want the investor base, we think we should be 110, we think we should be able to get back there. And then after that, it's going to be a combination of, okay, what's really hitting our cross-sell motion and our new products. And then if agent additions comes back at all, that's all going to be gravy on top of it.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Sounds good. Tyler, last question that I wanted to ask you here today. Maybe it's a little bit more, ultimately gets to the operating leverage and maybe it's a little bit more of a medium-term question. It's on the potential for the company to get back to being a Rule of 40 business profile. And the reason I ask it is, the company has been there before when it was private and then when it was growing like a rocket ship. It was at the Rule of 40 and a very, very high growth rate. But now as it scaled a lot, and so the question I want to ask you is, at some point in the future when the company becomes a billion-dollar revenue run rate and what's likely a more balanced growth and profits margin profile, can you still get back to the Rule of 40, and then the question is kind of where do you see the most leverage in the model moving forward?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. So thanks for asking that, Brian. So we have an Investor Day on September 7, we are going to update kind of how do we want the investors to think about us mid to long term, and kind of update that, that model we kind of had at the IPO in terms of what growth and operating margin should look like. If I look at it for this year, so we are very focused on Rule of 40 and how do we get there, but also how does that break down. If you think about this year, we just guided to $60 million of free cash flow on just under $600 million of revenues. You got 10 points of your Rule of 40 there. We've guided to 19% growth. And so that's 29% that we're there. We're not happy with 19% growth. Let's be really clear. Nobody gets super excited about that. And so we're obviously focused on how do we accelerate growth.

And then on the free cash flow margin, yes, we're going to have some leverage there. But when we think about Rule of 40, the goal is, we want the majority of that 40 to be coming from growth, not necessarily from free cash flow. But we do think it's important to have that from both. And so there has to be a big component. So we're going to outline how we're going to get there. We think, we feel we have line of sight to do that. And in the midterm, we're getting more leverage from free cash flow than we are from growth right now, but we do want to see how do we transition to actually reaccelerate our growth engines. And that's obviously what the company is very, very focused on.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Q

Okay. We'll stay tuned. We don't want to steal the thunder from June out there. But Tyler, remind the audience again when are you having this investor meeting?

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

A

Yeah. September 7 in San Francisco. It'll be webcast but also live. We'd love investors to show up. It'll be at the Nasdaq site in San Francisco on September 7.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

Yeah. Well, I appreciate. We're out of time, Tyler. I want to thank you very much. Congratulations on all the business momentum and the good stuff happening this year at Freshworks, and we look forward to seeing you next year.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

Awesome. Brian, thanks again for having us. I appreciate it.

Brian Schwartz
Analyst, Oppenheimer & Co., Inc.

You bet.

Tyler Renwick Sloat
Chief Financial Officer, Freshworks, Inc.

Okay.