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Freshworks, Inc. (FRSH)

Investor Meeting

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MANAGEMENT DISCUSSION SECTION

Kate Scolnick

Vice President-Investor Relations, Freshworks, Inc.

Good afternoon, everyone. Thank you for joining us here at our Refresh event and also for those that are dialing in via webcast. My name is Kate Scolnick. I am Vice President of Investor Relations here at Freshworks. For today's Agenda we have some prepared remarks from Dennis and Tyler, and then we'll be opening up the floor for a Q&A session.

Just a couple of housekeeping items. Just wanted to cover that we have our disclaimer statement. This is inserted into the presentation and we also will be making some forward-looking statements. So, actual results may differ and reconciliations from GAAP to non-GAAP will be available on our website and also as part of this presentation and with our SEC filings.

With that, I would like to turn the stage over to Dennis.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Great. Hey, everybody. Thanks for joining us here in Hudson Yards, for those who are here and for everybody who's on the webcast.

We wanted to get together with the analyst/investor community for a couple of reasons. First of all, when we last did our Investor Day back in September, we've made a lot of progress since then. And we've really clarified and continued to drive the strategy that I laid out two years ago when I became CEO, which is very much focused on the EX business. The event that we had today that some of you had a chance to participate in is our Refresh

event for customers, and it's specifically targeting EX customers because those customers are quite different than CX business. They're bigger, they're larger, that's now the majority of our business.

And as we reflected on the conversations that we've had with analysts and with the investment community, it's really clear to me that we need to do a better job of communicating our story because the story is moving so fast. I've spoken with a number of investors. I've read literally every analyst's report that's been written in the last month or so, and I'm still surprised that a lot of analysts still refer to us as a CX-centric business, as an SMB-centric business, and that's just not accurate anymore. A lot of investors still have that mindset as well.

So, we want to use today to really set the bit on where are we going, what have we accomplished in the last year or so, and how is that changing our business? Because the business looks very different than it did just nine months ago, all for the better.

So, the messages that I want you to hear are five. So, the first is, and this is important, we are an EX-first company. We are an EX-first company. We have a customer support business but our driving growth story is EX.

The second is that we are a leader with agile enterprises, I'll explain what that means, and in the mid-market. When we went IPO, we were all about the SMB. Our business is being driven by the enterprise.

The third is that AI is a tailwind. It's enabling growth, both directly monetized and indirectly. And I'll explain what that means. Tyler will talk through the last two which is we're profitable and scaling. I was a little surprised, to get a reading all the analyst's reports, one of our analysts said they're unprofitable and they don't forecast a profit. That's just, again, not accurate. We want to correct that.

And finally, we're committed to capital efficiency and prudently managing our capital.

Okay. So those are the messages we want you to hear. I'm going to go through the first three. Tyler will take the last two. All right.

First, we are an EX-first company. So, Freshservice is the product that serves employees, that serves IT. Freshservice is the AI-powered unified service operations platform that is fast to deploy, intuitive to use, enables every employee to be more productive. For those who had a chance to spend time with us today, the messages that you heard were very much aligned with this. Our customers want a platform that is enterprise grade, but that's intuitive for their employees to use, that offers fast time-to-value, and that is AI-enabled. And all of the wins that we're making, the traction that we're getting in the market, it's because of these things, and we'll talk through that as well.

So, Freshworks is now an EX-first company. When we went public, 37% of our business came from EX. We were very much focused on customer support. Our customer support business then and now is more of an SMB-inbound business. Our EX business today is 60% or will be 60% of our overall ARR by the end of this year, and it will be 70% of our ARR by the end of 2028. The EX business skews towards larger customers. 80% of our EX ARR comes from the mid-market, which we define as 251 and up seats, and enterprise, which we define as 5,000 and more employees, 5,000 and more employees. So, we are EX-centric business when we look at the investment that we're making, whether it's acquisitions or how we allocate our product resources, how we allocate our engineers. It's in line with where we're going, not with where we've been, because the opportunity in that business is huge and we'll share more about what that looks like.

Freshservice is our EX product. It's on a path to \$1 billion in ARR in about 2.5 years. So, today we'll end 2026 at \$600 million in ARR. We have 20,000 customers globally today. Our EX business has grown 5x over the last five years. And we've really built out a complete platform for an enterprise.

If you think about the different layers of service that we provide and how customers interact with our products, how their agents interact with our products, how employees interact, there's a couple of layers. The first is the interaction layer. You can interact with Freshservice as an employee through chat, voice, email, portal, through Teams, through Slack, and now through Claude and through GPT, through our MCP Gateway, which I'll explain in a minute.

You have our agentic layer, which is now a lot of the focus of today's launches were around that. AI agents. Today, we announced our AI Agents Studio for EX. This is a platform that allows you to create an agentic experience in a no-code, low-code way. It has 20 pre-built AI agents out of the box for IT, and we already have quite a bit of early adoption. We're really excited to get that in the hands of more customers. We've had our Copilot product in-market for some time. We monetized that directly as an adder on our seat license. That's all about augmenting the human interaction. There's a lot of innovation going on there.

AI Insights are about creating more intelligence, more visibility for the manager. So, one of the products we announced today is intended to inform the CIO. Think of a conversational interface where you can ask anything, understand anything about the service environment in a very simple way. You can get insights that may have taken you a lot of time in the past.

And then today we also announced our MCP Gateway, so enabling customers who want to create a single experience, let's say, through Microsoft Copilot, or they want to drive actions through Claude. They can take actions in those surfaces and have the actions actually take effect in our system.

Underlying all that is a complete platform for the IT department. IT Service Management by answering questions and solving problems for employees. Asset Management, managing the thousands of pieces of software and hardware that are in any typical enterprise. Operations Management, it's all about resolving problems. And then Enterprise Service Management for teams outside of IT.

Underlying that is all the history that we've had over the last 14 or so years, building out our product, the knowledge base, the workflows, driving identity and access. It's this context that enables us to provide AI experiences that are more accurate, faster, and just much more attuned to what's going on in a specific business and in a set of businesses because we have insights from different industries along the way. And then, of course, all the integrations that you need to make all this effective. So, it's not a simple helpdesk. It's a platform that underlies the operations of any IT department.

Okay. We can talk about customers. A lot of the conversation today was about customers and the progress that we've made over the last year or two is really phenomenal. Today, we have a third of all Major League Baseball teams using Freshservice. We have a third of F1 teams using Freshservice. We have two of the three music majors, global music labels using Freshworks. We have two of the top four steel manufacturers in the US, Nucor Steel and Steel Dynamics, using Freshservice. We have industry leaders in technology like Databricks and Smartsheet and RingCentral, all on Freshworks.

But we also have companies that have been around 100-plus years like Vermeer. They make industrial products based in Iowa, family-owned business, using Freshservice. So, we serve every single industry. There's no

industry that drives any specific concentration. We've got thousands of universities, thousands of law firms, tremendous momentum.

And the momentum that we have is in the enterprise segment, it's in the mid-market and in the enterprise. And again, it's important for people to understand that. People still have perceptions about the business from the past. The TAM that we're going after, if you look at the entire TAM, ITSM, ITAM, ITOM and ESM, is about \$45 billion per Gartner and growing about 13% a year.

The TAM that we are specifically focused on are those businesses that have up to 20,000 employees. So, I talked about this at the event earlier today. Think about New Balance. New Balance has 7,000 employees. They have to compete with Nike. Nike's got 90,000 employees. They have the same security requirements, the same level of complexity in their operation. But they are not going to have the same level of resources in IT to manage a heavier, more legacy system. They're looking for something that's more nimble, that's faster to deploy, faster to change, especially with AI than what the legacy players provide.

This TAM is about 60% of the overall TAM. So, it's a very large market. And what's interesting to us is that no player, when you look at this segment within the overall TAM, no player has more than 20% share. So, still a fragmented market with a lot of opportunity to grow.

Within that segment, we are the best solution. So, what are your choices if you're one of those companies? You can go with a very simple helpdesk experience like what you might get from Zendesk or SysAid. You can go with something that's purely for SMB, like ManageEngine. You can go kind of retro to Ivanti or BMC, and organizations that are perceived as last generation, they're perceived as not innovative. You can go with Jira and we see that, for sure, in developer-centric organizations. It tends to be perceived as harder to use outside of developer-centric orgs. Or, of course, you can go with ServiceNow. And a lot of our customers tell us that's expensive, that's complicated, that's why I'm coming off and moving over to Freshservice.

So, for us, our positioning is enterprise-grade without that enterprise complexity, and that really is resonating in the market. That's why we're winning business. That's why we grew in Freshservice 27% year-over-year last quarter.

From a differentiating standpoint, we win because we have a unified platform. We have the complete set of capabilities today that IT departments need. If I'm coming off of a legacy provider, we have all the components you need to perform the functionality that you're going to need to migrate.

Our domain-specialized AI, we already have workflows built out of the box that you can use to move into an agentic world. We've got a decade worth of data and context that we've trained that on.

Rapid impact. You hear this over and over and over. One of the cases that we talked about was Seagate. Seagate went from one of their legacy or a legacy provider that they were with for 14 years. It took them three months to migrate all of their capability on to Freshservice and they're thrilled with how that all worked out.

And then we are a trusted partner at scale. We have a transparent pricing model. Customers appreciate that. We're very clear with how we manage data, governance model and so forth.

Now, all of this has resulted in rapid upmarket growth. So, a couple of stats here that I just want to explain. One is when we look at ARR from customers that spend more than \$100,000 with us, that's over 40% of the overall Freshservice business. So, we're getting to the point where almost half of our business for EX is coming from that

\$100,000-plus customer. Those tend to be larger customers, right, larger organizations, more complex organizations.

Second point is that customer segment is growing incredibly quickly. So, customers that spend more than \$100,000 annually with us grew 40% year-over-year in Q1. For the company, as a whole, one of the stats that we shared on our earnings call was that we grew 29%, but within EX, that number is 40% growth in one year. And they're spending more with us, so the ARPA, average revenue per account, for our EX business grew 18% year-over-year. Okay. So, all these are indicators of success in the larger account space, success moving upmarket, success in the enterprise.

I talked a little bit about Seagate. I think Seagate it's an important one to spend a little bit of time on. So, Seagate, as you all know, leader in hard drives, really booming with AI. So, they're selling their hard drives into data centers. They grew 45% year-over-year last quarter. 30,000 employees. By no means an unsophisticated small business. This is a sophisticated global enterprise.

They were with a legacy provider for 14 years. So, think about that. You hear a lot, well, once you've kind of made your bets and integrated one of these other systems, it's very hard to get off. They were frustrated with the inability for them to get value from that system, the inability to get value from AI in particular. They found it very hard to change workflows in that system as their business changed. It was expensive because they had to have specialists on staff just to manage it. They evaluated us. They moved over to us. They went live in three months. And I encourage you to watch the video. We'll put it – if it's not on the website, it's going to be on the website. But you'll hear directly from them as to how the experience went. And they're thrilled with the outcome.

So, we're consistently and increasingly winning these larger customers. We're winning against large competitors. Each of these customers, Kidde, many fire signatures and buildings like this come from Kidde. CommScope, another player in the AI space, optical gear. Village Roadshow Pictures in Australia, they all were with one of our largest competitor.

We win in the mid-market. The mid-market motion for us is higher velocity. In many ways, it's a very reliable business, but regional banks like Commerce Bank or Flowserve.

And then we're increasingly winning with partners. So, whether it's a regional partner like Whitlock, which has implemented literally hundreds of deals for us, or increasingly, we're spending more time with more GSIs like Unisys. So, growth in terms of large, mid-market and partners.

And we have multiple paths to expand once we land, right. IT Asset Management. We acquired a company called Device42 a year-and-a-half ago, about a year-and-a-half ago. We have brought that product to cloud, so it's available as a cloud native product. It was on-prem. About a third of large new lands include Advanced ITAM, which is our Device42 capability. As we now have that in the cloud, we think that that's going to drive further growth because we have a lot of customers who are cloud first who don't necessarily want to buy an on-prem product.

IT Operations Management. We acquired and are integrating a company called FireHydrant. They provide much more advanced IT operations management capability. They have very large customers like Palo Alto Networks and Major League Baseball. Today, we have hundreds of customers that are using another solution for their operations management. We know that because we see the integration with Freshservice. Many of them would prefer not to use that other provider to have an integrated approach where all the information is in one place, their

team can leverage one pane of glass to drive remediation and so forth. And so, that opportunity is really ahead of us. We're just getting started.

ESM has been a big driver for us since launching it about two years ago. We have about one-fifth of our new seats are coming outside of IT. That's going to be a big growth lever for years to come. Some of the AI agentic experiences that we're launching out of the box are for teams like HR. So, think about onboarding an off-boarding. All can be done agentially.

AI. We're attaching paid AI SKUs on over half of our new lands. And then there's future adjacencies. If you think about how we raised our game in ITAM, we then went into ITOM. There are spaces that are adjacent to where we are like AIOps and DEX and FinOps that are interesting to us where either we'll build or buy as the market dictates, as our customers look to us to do so.

But the point is here, this is a real clear opportunity for us to continue to drive NDR expansion and overall ARPA growth. Over 60% of our bookings are coming from expansion. It's a predictable motion for us as well. And you see it in the NDR. So, NDR for EX is 111% last quarter. When you look at EX customers that adopt more than one product, it's 119%. So, as we have more products to offer, as we have a much more robust suite of products, and again, a lot of this has come together in the last 12 months to 18 months. We're seeing more expansion. We're seeing stronger retention rates as well.

Now, the monetization model is also evolving. If we play the clock back to like three years ago, we were primarily selling seats into IT. We had a limited asset base pricing model for ITAM. Today, we have a model that's turning into a hybrid model, seat-based for IT and for non-IT users. We have asset-based pricing for Advanced ITOM, we have alert-based pricing for ITOM on-call, and we have session-based pricing for AI Agents.

Where we're going is a much more flexible pricing process, but we're going to match what our customers are looking for. One of the core tenants that we have is we want to give our customers choice. Some of our customers still want to stay with a more predictable model. Others may be willing to move faster to something that's more variable. So, things like assets and events and resolutions and tokens, employees, all of these things we'll be exploring over the course of the next year or so.

Underlying all that, our EX seat growth remains robust, double-digit percentage growth in this. Now, partly that's because we're not trying to protect a business. We're trying to build a business, and we're winning share and that's leading us to expanding our presence in our existing customers as well as winning new customers, all that comes with seat growth. ARR beyond seat growth is growing quite quickly as well.

I mentioned New Balance. So, New Balance is an example of a company that needed to unify. They have multiple different systems that they were running on. 7,000 employees, very diverse business. Think of marketing, sales, production, all around the world. But they were siloed. They didn't have a uniform way of managing their IT operation. So, they came onboard about a year ago, a year-and-a-half ago. They now have Device42 integrated into their business. They've helped us expand outside of the IT department into multiple teams. Teams are actually asking them to bring us in so that they can get the benefit that they've seen from IT as well.

All right. Last one from me and then I'll hand it over to Tyler. The third is that AI really is a tailwind for us that's enabling growth. So, what we announced today, I'll run through these real quick, we announced AI Agent Studio. I've talked about that. No-code agent builder, a lot of enterprise context to take actions in it. We launched our Freshservice ITAM and ITOM, the IT Asset Management in the cloud, natively integrated into Freshservice. IT Operations Management with the FireHydrant integrated into Freshservice. We announced our MCP Gateway

and we announced XLAs and Executive Overview Insights. This is important because as the experience that most employees have with IT turns from an email into a chat with an AI agent, you're going to answer these questions and get some problem resolution very fast, so a typical SLA doesn't make a lot of sense. What you really want to measure is was the employee productive, and you don't need to ask them. You can actually monitor them and see what happens, and through AI, score that. And that's what we've launched.

So, AI, today, is delivering customer outcomes. First is really around Freddy Copilot. So, Copilot enables agents to respond faster, it suggests answers, it summarizes tickets. We see that agents that use Copilot are able to address 50% more tickets than those who don't. That's real value for our customer. A lot of our customers on the agentic journey, they start with Copilot because they want a human in the loop. And so, they're provisioning Copilot for a portion of their agents, seeing what happens then potentially expanding from there. But that's really the entry point for many of our customers to AI.

We're driving efficiencies. So, we're seeing with Freddy AI Agent, in Q1, average deflection rate of 50%. That range is as high as 80% for some customers as customers adopt more, as they create more opportunities for the AI to actually handle that L1 support.

And then we're seeing growth in adoption in aggregate. So, our Freddy Copilot customers within EX doubled year-over-year in Q1. So, we're seeing that kind of adoption really starting to drive real value.

Now, we have multiple paths to monetize AI, and I think it's important that we're going to pursue different paths for different products. As an example, we launched our AI Agent Studio. For a period of time between now and October, our customers can access it for free. Same with the MCP Gateway. We'll charge and we'll monetize beginning in October because we want to drive adoption.

Today, what we offer is AI Copilot. That's a \$29 a month adder on top of Pro and Enterprise. AI Agent, as I said now, our promo base is for our Pro, Growth and Enterprise plan, session-based. It'll be priced at \$0.49 a session in October. And MCP based, which is we're going to see what the usage is, we're going to see how our customers use the gateway, and then we'll price that also in October.

But there's also these indirect benefits from AI that are driving our business. One is win rates. So, every deal that I'm involved with, every prospect that comes in, they're evaluating our AI capabilities today and they're evaluating the roadmap and making a decision as to whether to come to us based on that. NDR for EX customers with AI is higher, 118% last quarter. And it's helping us drive the Enterprise plan much faster. So, our Enterprise plan, which is our highest paid plan, that currently includes AI Agents and Insights. And that is outpacing our overall EX growth by quite a wide margin. So, we have these indirect benefits as well that Tyler will talk a little bit more about.

Okay. Last one for me. Amerisure. Amerisure is an example of what we would call a mid-market customer. They have about 700 employees. US-based insurance agency. They also had a legacy ticketing system that they had to replace but part of the journey for them was all about AI. So, they've automated a bunch of workflows using AI Agent. They handle ticket routing, change management, a bunch of self-service from employees without manual intervention. They haven't had to add head count. They're using AI Insights to surface a bunch of things like ticket deviation, doing things that would have taken them, Power BI and an analyst, in seconds.

With that, let me hand it over to Tyler who's going to talk through some of the financial side of the story.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

Awesome. Thank you, Dennis. All right. Thanks, again, for everybody for being here. I know it's at the end of the day and there's things waiting for us outside. But we thought it was really important to do this update, right. As you just heard, this conference, Refresh, we've been doing for years, but it's really EX Conference now. And the reason is because we are an EX company.

But this is not a new thing. We actually laid out a strategy two years ago when Dennis became CEO and that strategy was predicated on the work that we did internally, understanding that okay, EX really is a massive opportunity for us.

So, what did we do two years ago? Well, the first thing we did is that we de-prioritized kind of our non-core products, really. Second, we said, okay, our priority has to be EX, it has to be AI across our products, and we have to have a very focused CX. And then we're going to actually really focus and do first wave of focus on GTM and on product investments that we are making.

What this resulted in and just literally the last two years that we are doing it is essentially 700 basis points of both operating profit and free cash flow margin increases over just the last two years. So, we've been driving this strategy all along the way. And we're starting to see the fruits of all of that labor over the last two years.

We did just have an Investor Day, though, and we had it in September. We gave everybody an update and we gave an update on our 2028 model. So, why are we updating today and what are we doing even differently? Well, the reality is that the EX opportunity that we see in front of us and based on the results that we've seen over the last couple of quarters, is even better than what we thought it was in September of last year. We see the space to grow on EX is larger. And part of it is that the ITOM acquisition that we did with FireHydrant opens up on a whole another pillar. ESM, as we're seeing the uptake on ESM, and now on Device42, but really it was Advanced ITAM, releasing that to the cloud and seeing what our customers want in terms of adoption of that, the ones we've been waiting for that offer. And as a reminder, we have a whole set of customers who don't want on-prem that haven't even had the chance to buy Advanced ITAM. And that's just rolling out right now.

Second, in the middle, is that we've been pretty open that we've been building out a field motion over the last couple of years. Historically, Freshworks, as a company, was anchored by Freshdesk when we went public five years ago, and Freshdesk was an SMB product. As a result, even though we had NGO sales, they tended to be more like kind of inside sales or very small business sales as opposed to true enterprise sales, selling to CIOs directly for mission-critical products. We've been building this out. And you can start to see that motion and that wheel starting to turn. As a result, pipeline coming into Q2, which we talked about last week on earnings, is like stronger than we've ever had. But also in Q1, we just closed the two biggest deals in EX that we've ever had. One, over \$1 million and one almost \$1 million in ARR. At the same time, expansion is still driving the majority of our bookings and that, we think is still kind of a tailwind behind us as we unleash the ITAM and ITOM capabilities.

And then lastly, we've continued to really lean in to make sure we're capturing this opportunity. And these are all changes that or part of this change we announced last week as well in our business model that's going to both drive bottom line but also top-line performance based on focus.

So, what does that mean for the long-term targets that we laid out in September? In September, we updated our kind of LRP for 2028. Based on what we're seeing today, and the real driver is that EX going from low-20s growth to where we have confidence now, it's a mid-20s grower, all kind of driven by pipeline as well as the capability to expand out. And we also said we would look at other adjacencies as we go. And we're starting to get these

adjacency requirements from our customers as they go across all the pillars from ECM to ITSM to ITOM to ITAM, and starting to talk about what else would we want and need, and as Dennis mentioned, we are already paying for other systems and we'd love for you to have this within the Freshservice offering.

That, with the weighted average shift, because as we grow faster on EX, the metrics all are better, right? Our net dollar retention is better. Our expansion motion is better. And EX is already a highly profitable product.

At the same time, CX is important but we are being really prudent about what we're doing there. We've been really open to the fact that we just spent a year re-platforming the product. We're migrating all of our customers over to that new platform, which is under the same name, Freshdesk and Freshdesk Omni, but it is a different product where 80% of our customers are now migrated over. But we're going to very much refocus our GTM efforts on that. It's going to be inbound only, and it's going to be really prescriptive about the TAM that we're going after. Because of that, we're saying, okay, this is not going to be low-single-digit growth. But with the EX improvement, that's giving us confidence about how we could raise the target for 2028 by \$100 million on ARR.

So, how is that going to play out? The \$100 million on ARR, as you all know, you guys all know ARR precedes revenue, but it's going to be relatively the same. So, we're actually saying revenue is actually going to go up by \$100 million in 2028 as well. So, revenue is going to go from \$1.2 million-plus is what we said in September to \$1.3 million-plus now. That's really going to be driven by ARR, obviously.

But the ARR drive is really coming from the mix shift. EX is going to grow faster. It's going to become 70% of our ending ARR by the end of 2028. We're also getting this because we're closing larger and larger deals and continuing to get pulled into those organizations.

Now, Dennis said, hey, our ICP for EX is what we're calling these agile enterprises, which is really up to 20,000 employee organizations. But we've already highlighted companies in some of the customer stories, of companies that are much bigger than that, right. And so, absolutely, those are going to come in but that is not going to be our focus on what we're going to go attack.

And I already talked about the mix shift and how this helps our retention, which we think is now going to be 108% for 2018.

At the same time that we're talking about the top-line changes, we're also making changes to our operating model in terms of all of our expense line items. And a lot of it is really about focus and where we're deploying all of our resources to make sure we get the best returns for it. We've already talked about the profit of the business. Now, EX is a very profitable business with very high gross margins there at 80%. And that's something that I've always cautioned every single quarter we'll come in and print in an 85% and even 86% gross margin. I said, hey, there's going to be a little fluctuation there as we absorb AI costs, and as we engage with larger and larger customers, but we still been able to do it.

CX, we've made changes there so that we can drive a 30% operating profit business and CX, even though at a low-single-digit grower is also going to be producing a ton of cash.

The GTM, all of our field efforts, which is our NGO efforts and our outbound efforts are all going to be EX. CX is going to be focused on inbound only and really going to be driven by digital marketing spend and the new age of kind of inbound generational spend.

Product and engineering is changing really fast in the way they innovate and the innovation cycles are increasing dramatically. And we now have 50% of our code being generated with tools that our engineers are being equipped with.

And at the same time, we're doing investments in infrastructure across our entire company. And this is something that we've kind of been tasked with as an organization that we haven't made these investments in the past. These aren't necessarily AI investments. These are just core systems that we have now made the investments over the last 18 months and spent tens of millions of dollars, quite frankly, to go do it, that we now get to see the rewards on.

As we do this, we're going to see the benefits of scale. So, the marketing is going to come down slightly, R&D is going to come down slightly, but the expectation is that we're going to get higher and higher efficiencies for every single dollar that we're deploying.

As a result of these top-line changes, as well as the operating model changes, we are going to be looking at a Rule of 50 company by 2028 with \$1.3 billion in revenue and near 34% margins on free cash flow.

That's what our P&L impact is going to be. And I'm going to show you that the changes are from what we just showed in September to now. But it's not just thinking about the expense on the head count, everything else expense. We've also been dedicated for the last two years on really prudent capital management.

You can see from 2024 to 2026, we actually have reduced our fully diluted shares by almost 10%. We are now actively exercising against our second buyback that we've been doing and we've been doing net settles of all of our RSUs since we've gone public. We've been able to do this even though we have acquired two companies and we still have \$700 million in the bank with no debt. As a result, we've been driving our free cash flow per share. We almost doubled it from 2024 to 2026, and now we expect to have free cash flow per share of \$1.35 by 2028.

In our plan, we assume we're going to keep doing our share retirement on net settles. We're going to continue to do tuck-ins from one to three but we this model does not even anticipate any significant new buybacks. And that's still going to be something that we have the opportunity to do and we most likely will do, because we've already demonstrated that we will be prudent in our continued capital management.

We put out a North Star metric in the last call, which is free cash flow per share. We think that this is a great way to measure us as well as others about how are you running the business for profit, ultimately deemed by free cash flow, which should be something that could be repeatable, as well as share count. Although we put that as our North Star, we're not ignoring SBC. In fact, we think SBC is important. I don't think it's a perfect metric from an accounting perspective, but it is important. But you can see from what we've done over the last two years to manage down our SBC as a percentage of revenue that we've taken it from 30% in 2024, down to 16% estimated for this year.

We had said in our Investor Day in September that our longer term model actually had us around 18% to 20% on SBC, and we're updating that today that we are going to commit to getting to 13% to 14% of SBC by 2028.

So, how are we going to do that? Well, the first is that we've been really prudent in head count management, right. We are a company that, over time, had solved a lot of problems just by hiring people and not necessarily having the right people in the right roles. We have brought down our head count by 20% over the last couple of years. And you should expect us, even though we're obviously still hiring, you can look at our hiring page, there's

a lot of hires out there, but we are going to be very prudent on who we add and making sure we have the right people.

At the same time, we are adjusting the eligibility requirements for our employees and we're going to be thinking about other forms of compensation absorbed in our operating model, not necessarily with pure equity. We had a bunch of really expensive SBC grants at IPO and we've lapped these, so these naturally help us out, right.

So, what does this mean for our total outlook? First, this slide up here, our guidance we gave last week does not change for this year, right, so we reiterate. But as a reminder, we just increased our revenue for the year by \$5 million after one quarter. We increased our operating profit by \$26 million after one quarter. And we increased our free cash flow by \$15 million after just one quarter. All of these things are just proof points that things are rapidly changing for us. We are making changes to the business and we are executing at a really high pace.

When we look at what we put out at Investor Day, and that is in September of last year, the \$1.2 billion on revenue is now going to \$1.3 billion, so we're raising it by \$100 million. On our operating margin and our free cash flow margin, we're raising by 400 basis points. And on our SBC, we're decreasing by 500 basis points to 600 basis points. These are all changes from last September because of the execution and the strategy that we outlaid as well as continued changes in what we've been able to change in our business and the way that our employees do their work.

I do want to pause for a second because we have been giving out a lot of metrics and I just want to make sure, and we've been getting questions on consistency. This is what you should expect from us on a regular basis, which means quarterly, right, that we will be disclosing EX and CX ARR. Now, this is something we just started doing over the last couple of quarters, but to us, billings is not a good metric, it's not the way we manage the business, but we do look at ARR. So, as we give out more CX and EX, I would expect the investment community just to actually get off of billings and actually start focusing on that. Margins, capital usage, adjusted free cash flow per share, we're going to continue to put that out there and make sure we're on track to get to that \$1.35 that I just mentioned.

NDR, the number of customers, 50,000 to 100,000. We said we're not going to give out the total customer number anymore because we are moving upmarket, right. And we're not focused on that long tail of SMB anymore. Paying AI customers and attach rates.

So, what is not up here? Per kind of sub product ARR. Those you should expect to have periodic disclosures about, right. Periodic could be in a quarter we might decide to highlight a certain product line, a product line not EX but maybe ITOM or ITAM or something like that or even AI. And usually, probably annually, right. But these are the ones that we are committing to consistently on a quarterly basis, providing to the investment community.

Okay. I went through this pretty quickly, but I want to kind of just wrap up what Dennis laid out, but really make sure everybody understands. This is not a new story. This is actually us leaning in further to the strategy that we laid out two years ago because it is actually working. And as a result of it working, we are now a different company, very different than when we went public five years ago or almost five years ago. But even different than we were two years ago.

So, why should investors think about us? Number one, we have a product at scale that's growing at mid-20s that we think has a lot of runway behind it. And we actually are even attacking in, what I would call, limited TAM compared to the broader TAM. You can already tell that we're being pulled in to larger and larger deals. That's not

going to be necessarily our focus because we know that we can grow well above what we're even calling out, just if we can go executing against that TAM. And so, we think it has runway behind us.

Second, we're a compounding free cash flow story, which I just showed how we've actually increased free cash flow over the last four years. But we are committing to growing that free cash flow per share by 20% a year going forward.

And then third, we're clearly trading at a discount, right. If you look at what we're doing with our capital allocation strategy right now, with our buybacks, it just makes sense to us. When you look at our enterprise value, we feel like we are one of the lowest-traded stocks in our peer set with some of that best execution. And part of the clarity that we want to provide today is to make sure everybody understands what we're focused on, what we think the opportunity is, and so that you can measure us against that opportunity.

All right, I'm going to invite Dennis to come back up so we can take some questions. I don't need to go through all five of the points again. I think we got them, but let's open it up. Rob?

QUESTION AND ANSWER SECTION

Rob Oliver

Analyst, Baird

Q

Thanks, guys, appreciate it. Great. Thank you. Rob Oliver from Baird. Tyler, a couple for you. So, I guess starting with the EX growth which is, obviously, really strong, 20s to kind of low-20s to mid-20s. Is that organic? That number, does that include some of the adjacencies you guys talked about potentially rolling in.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

It doesn't take into account any future thing that we will go buy, right, and we had already said FireHydrant was a material from a really a revenue perspective. Device42, we just disclosed how much revenue we took out there.

Rob Oliver

Analyst, Baird

Q

Yeah. Yeah, and that's clearly adding nicely. And then I guess on the AI side, given – and I'm sure there's going to be lot of questions about pricing because you guys are offering a smorgasbord of pricing options which given the variety of your customers might be the right strategy, and I just wanted to understand how you handicapped thinking about the raise of the targets as well as the potential AI contribution to those targets given all the variability there. Thanks.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah. AI is going to become a bigger and bigger component to, number one, why we win deals and why customers choose us. One of the reasons we give out the ARR is because the ARR we've given out on AI in the past has been very much is only the direct SKU that is getting purchased. But there's actually a lot of included AI in some of our additions of our product. We don't do allocations. We don't try to play around the numbers.

The pricing packages are going to change. Part of the strategy of actually not charging for MCP and for AI Agent Studio, even though we put out the price for Agent Studio, we need customers to use it and we need to demonstrate value, right. And we don't want to be a company that's going to put out pricing that's going to change every six months. It's very, very confusing for our customer.

We're going to continue to release new AI across all of our products and some that we might actually just give away in terms of – just it's going to be table stakes to win a deal. From that, we have to absorb the cost and make sure we have a great margin. But we're actually much more focused on just driving ARR and making sure we have a great margin as opposed to what is the components of that ARR.

Scott Berg

Analyst, Needham & Co. LLC

Q

Hi, Scott Berg from Needham. I guess a couple of things here. There's lots of questions, I only picked two. I guess, on the EX side, love to see the higher growth rates from what you guys are talking about the next couple of years and the confidence in that business. But when you look at that business, how much of that is predicated even maybe moving upmarket even higher? Because you talked about \$1 million deal in the last quarter, which is a great start, but I don't know if you're expecting to kind of move up there even more or the current segment that you're in is the right fit.

And then I sat through a couple of partner sessions today, and the strategy there, I think, is interesting and evolving and I came away from it thinking that your effort is becoming much more almost concentric, much more focused in terms of what you all are doing there. What's your expectations for partners in this new kind of framework in terms of what they're going to be contributing through that?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. So, when we look at our kind of what you are seeing in terms of the numbers, there is no expectation that there is a radial departure from that focus on the core market that we're really targeting, that agile enterprise, up to 20,000 employees. At the same time, the business has gotten very successful in these 10,000, 15,000, 20,000-employee companies in a pretty short period of time. So, I wouldn't be surprised if we're sitting here in 2028 and we have adjusted that actual target up.

But within the TAM that we're looking at, the TAM is plenty large enough for us to build a very big business, we don't need to go up any further to hit the numbers that we've outlined. I think from the partner side, we're seeing partners help us win deals. If you sat in that session, we win at higher rates when we have a partner involved in the deal, the deal cycles go faster. So, I think that that's almost an untapped lever that we have to grow for sure.

Scott Berg

Analyst, Needham & Co. LLC

Q

Okay.

Brian Peterson

Analyst, Raymond James & Associates, Inc.

Q

Brian Peterson from Raymond James. So, I'm shifting focus on EX. I'd love to understand what kind of sales and marketing investments you're making there internally. And as you're thinking about the sales and marketing efficiencies that you referenced, how much of that is kind of EX versus CX? Any color there? Thanks, guys.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Maybe I'll take the first part. So, we're pretty focused in how we're investing. 85% of our revenue is coming from North America and the western markets of Europe. That's where most of our sales, our field sales teams are. We invest in marketing because we still have a story that we need to tell and that story is evolving. As we move upmarket, we need more and more of the CIO community to recognize that we are an enterprise-grade choice, and that definitely requires investment. All that's anticipated in the numbers that we've put up here.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Yeah. And from an efficiency perspective, we spent a year-and-a-half now building out some infrastructure on the field sales side, specifically with Ian as our now CRO, hiring leaders for Americas and international, and then as they hire out their folks.

What we just did in the last week was really restructure all of our GTM that everything field is going to be EX focused. So, when you think about efficiencies, we were kind of split somewhat between CX and EX before. And when you say split, it's just not a couple of reps. It's all of your enablement, it's all of your outbound marketing, it's a lot of your efforts that are now purely going to be EX. And so, I think we're going to drive a lot of efficiencies there.

And at the same time, we're still getting a lot of inbound. But as Dennis mentioned, there's brand work we still need to do to make sure everybody understands that we are an EX company.

Matt David VanVliet

Analyst, Cantor Fitzgerald & Co.

Q

All right. Thanks for doing this, guys. Matt VanVliet from Cantor. So, you talked about being an EX-first business, but why not be an EX-only business? So, maybe kind of two-part question, what is the value of still having the CX business sort of running a dual product strategy? And then if the determination is you need to keep it, there's a big value for it, why can't margins be higher than 30%? Like why can't we just make it a fully efficient business with minimal growth and just strip out a lot of the excess costs there? So, what's the thinking of having that dual product and how much can you maximize the CX business?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. I think to the second point, the stat that we had in there was for this year. So, over time, we would expect that we potentially could drive higher margins there. I think CX still remains an important part of our business. We have a lot of customers who are both CX and EX customers. And we look at like our top 50, close to half have a deployment of both products. So, that's important. There are shared components of the actual underlying infrastructure that we get leverage and we get scale for building. AI, for example. Starting with the EX, a lot of the primitives, a lot of the functionality can be applied to CX as well. So, it's certainly something that we've considered but we're committed to that CX business.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Hey, thanks. DJ Hynes from Canaccord. Dennis, I think there's a debate in the investor community around who is going to own the agentic workflow, right, whether it's third-parties or whether it's the vendors themselves. You introduced the MCP Gateway today. I know you're not talking about pricing, but just theoretically from an

economic perspective, if it's third parties that own that agentic workflow and they're accessing your platform through MCP, what do the economics look like in that model versus when you guys own the agents directly?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. So, that's why pricing for that is very important. I think we're going to have competition at the experience level and our AI is absolutely going to have to compete with a third-party solution. We really do believe in giving our customers choice and we're seeing customers that want to do things outside of our system. They want to start in Claude and actually use Claude as the interface that they're making changes in Freshservice, too. So, we want to enable that. We see others that want to do a lot of analytics outside of the core system. They want to pull data from Freshservice and other systems of record into a data lake and then apply a Claude-like experience on top of it. We want to enable that. We don't want to stop that.

Now, our pricing model absolutely will have to evolve. I think the answer, though, is the AI functionality that we provide natively has to be excellent and has to be able to compete with a third-party solution. So, that's what we're also focused on doing, providing AI. Again, I think that there's real value in AI that's actually easy to use and get up and running fast. So, our AI literally, it's an hours-long investment. It's not a months' long investment.

One of the customers I was talking to today was coming off of one of our larger competitors. They tried two different ways of getting AI as an effective kind of capability in their product. Didn't work. That's a big reason they came to us.

So, it's not as easy as it might sound to build a product that drives that kind of speed-to-value. We think that our customers are going to want to be very iterative. So, they're going to want try things fast. And if we build an AI set of capabilities that are easy to get up and running and fast to actually experiment with, we think that that's going to create an advantage for us and allow us to compete in that world where the experience layer is its own set of competitive dynamics that we have to be able to win it.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Okay. And then, Tyler, if I could ask a follow-up on the metrics. So, I'm just a little confused on the metrics. So, EX business is growing 25%, I think, right, [ph] constant (00:52:00) to last quarter?

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

[ph] Mid last year (00:52:01).

David Hynes

Analyst, Canaccord Genuity LLC

Q

60% of that growth is coming from expansion. That would make me think...

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

Bookings today, yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

...that NRR would be higher than 111% on the EX business. Is that a – if 60% of growth is coming from expansion, is that a function of that being a trailing 12-month metric and...

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

The 111%, yeah.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

I would look at a year-over-year compare.

David Hynes

Analyst, Canaccord Genuity LLC

Q

So, like in quarter, this 60% expansion, 25% growth gets closer to like 115% NRR in the EX business?

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

We do anticipate and I said net total retentions is going to go up, right, and the blended average and what we look at at 2028, and I think it would put one away, I think, out there.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

A

And that is because we do expect to have a tailwind on this right now. Part of it is weighted average, right, between the two products, part of it, obviously, is also because on our four pillars now, there's a lot of penetration we still get to go do with our existing and customer base.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah. Okay. Helpful. Thank you.

Oscar R. Saavedra

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Oscar Saavedra on behalf of Elizabeth Porter, Morgan Stanley. In updating the targets on ARR and revenue for fiscal year 2028, you've commented that you're seeing a greater opportunity with EX. I was wondering if you can maybe talk a bit more about between now you have in a more full portfolio that you can go out and sell versus

go-to-market changes that you've made that allow you to better sell that vision, like maybe just compare and contrast the two. And which do you see driving maybe greater sort of leverage from?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Is it go-to-market or is it product that's creating the confidence?

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

It's both. So, the go-to-market motion has matured. We look at things like our win rates, how stable are they, are they improving, who are they improving against or that's going up? When we enter any given quarter, what does that pipeline look like? What's the average deal size look like? How does the average deal size vary from quarter to quarter? All those things are very positive for us in that EX business. We're getting real traction. If you had any time to spend with customers here, you kind of felt that and you heard that today.

At the same time, when we look at the product itself, the product has absolutely gotten better. It's gotten much more robust, much more, I would say, enterprise-grade and just the core functionality. And we have a lot more to offer our customers. So, all of that leads us to conclude that, look, this is a big opportunity for us and we're going all in.

Scott Berg

Analyst, Needham & Co. LLC

Q

I'll take a follow-up here. Scott Berg from Needham again. The question is in the confidence and sales for the next year or two, against the backdrop where, I think, the average public investor thinks companies are going to be buying less enterprise software going forward. The average public SaaS company right now is growing 14%, 15%. Your EX business is, obviously, growing much faster than that as you talk about it, but it's also at a size and scale where it's just not comping over small numbers anymore. The question it goes to, what are you seeing from your customers to drive the spend right now? Because outside of like the marketing software space, we're just not seeing this type of growth anywhere. So, how does this keep up?

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

A

Yeah. So, in our business, nearly every deal that we're in is a competitive deal where there's an incumbent right? The product that we have is not a nice-to-have product. If you're running an IT department, you need this product. And there's a great dissatisfaction in the market with the other solutions that are out there.

In particular, when you get outside of, let's say, the Fortune 100 and you get into the space that we're in, which are these sophisticated enterprises, but they're not the gargantuan ones. They don't have the resources that those bigger organizations have. That's why I talk about those as the agile enterprises. That's the segment that we have a lot of confidence in. It's a huge segment. You saw 60% of the overall TAM rests in that segment. So, it's not that we need overall IT spend to go up. We're taking share from others that are not serving that space well.

And so, for us, that's a huge growth opportunity. And it allows us to buck the trend, right? And with AI coming in, a lot of these companies have to make a choice. If they're on a fragmented stack to get any benefit from AI, they've got to consolidate. That's a decision that motivates a discussion that we can get involved with. A lot of them are on some of these other players that it's very expensive to actually drive towards AI or they're not on the right plan. And there's a friction there. That creates an opportunity.

The one example that we showed in Seagate, that's what drove it. They needed to adopt AI. That was a huge motivator for them. The cost, what their existing provider would have been much higher than what they were comfortable with, and the work to get there, they weren't confident that when they actually did all that work, they were going to have a solution that was agile, that was easy to modify and change as their work changed. So, all those things motivated a reason to buy.

So, it's not like we're in a greenfield market where you are just riding the tail of the growth of the market to grow like a lot of software has kind of done before. We're winning in a share game. And I think that that's going to be true for some time in that segment.

Kate Scolnick

Vice President-Investor Relations, Freshworks, Inc.

Dennis, I think we're out of time. So, [indiscernible] (00:57:27) closing remarks.

Dennis M. Woodside

Director, President & Chief Executive Officer, Freshworks, Inc.

Well, first of all, let me just thank everybody for coming. Again, really appreciate all of you coming, those who were able to watch on livestream. Appreciate your support, your investment with us, for those investors who are here, and look forward to continuing the dialogue over the next several quarters. So, thank you.

Tyler Renwick Sloat

Chief Operating Officer & Chief Financial Officer, Freshworks, Inc.

Awesome. Thank you, everyone.

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