
Freshworks Inc.

First Quarter 2026 Earnings Conference Call Transcript

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Call Participants

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Tyler R. Sloat | Chief Financial Officer and Chief Operating Officer

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Analysts

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Oscar R. Saavedra | Morgan Stanley & Co. LLC

Austin Cole | Citizens JMP Securities LLC

David Hynes | Canaccord Genuity LLC

Alex Zukin | Wolfe Research LLC

Brian Peterson | Raymond James & Associates, Inc.

Billy Fitzsimmons | Piper Sandler & Co.

Prepared Remarks

Operator

Hello everyone. Thank you for joining us and welcome to the Freshworks First Quarter 2026 Earnings Conference Call. After today's prepared remarks, we will host a question-and-answer session.

I will now hand the conference over to Kate Scolnick, VP of Investor Relations. Kate, please go ahead.

Kate Scolnick | *Vice President, Investor Relations*

Thank you. Good afternoon and welcome to Freshworks' first quarter 2026 earnings conference call. Joining me today are Dennis Woodside, Freshworks' Chief Executive Officer and President; and Tyler Sloat, Freshworks' Chief Operating Officer and Chief Financial Officer.

The primary purpose of today's call is to provide you with information regarding our first quarter 2026 performance and our financial outlook for our second quarter and full year 2026.

Some of our discussion and responses to your questions may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our management's beliefs about our business and industry, including our financial expectations and estimates, uncertainties in the macroeconomic environment in which we operate, and market volatility, and certain other assumptions made by the company, all of which are subject to change. These statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks include, but are not limited to, our ability to sustain our growth, to innovate, to reach our long-term revenue goals, to meet customer demand, and to control costs and improve operating efficiency.

For a discussion of additional material risks and other important factors that could affect our results, please refer to today's earnings release, our most recently filed Form 10-K, and other periodic filings with

the SEC. Freshworks assumes no obligation to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this call, except as required by law.

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

For presentation purposes today, Dennis' financial comments will be on an as-reported basis. Tyler will be providing financial comments on an as-reported and constant currency basis.

I will now turn the call over to Dennis. Please go ahead.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Good afternoon, everyone; and thank you for joining us. Freshworks delivered a strong start to 2026, exceeding expectations across revenue, profitability and free cash flow. Our Q1 revenue grew 16% year-over-year, above the high end of our estimates. Non-GAAP operating margin was 18%, nearly 3 points above our estimate, and adjusted free cash flow margin was 24%. And once again, we achieved Rule of 40.

In Q1, we signed the two largest deals in Freshworks' history, including our first seven-figure EX ARR deal. Customers with more than \$100,000 in ARR grew 29% year-over-year and customers with more than \$50,000 in ARR grew 22% year-over-year. This demonstrates our continued success in serving mid-market and enterprise customers. Freshworks is the AI-enabled unified service operations platform that is fast to deploy, intuitive to use, and enables every employee to be more productive.

We entered 2026 with clear goals: expanding our EX business, monetizing AI at scale, and profitably growing our CX business. Now let's look at the results for each of these areas in Q1.

As we grow Freshworks to a \$1 billion ARR company and beyond, our EX business represents the primary and largest growth opportunity. In Q1, EX ARR grew 27% year-over-year, with both new and expansion business coming in ahead of our expectations. We are attracting a fast-growing base of mid-market companies and enterprises choosing Freshservice for enterprise-grade capabilities, fast time to value, and lower complexity in implementation.

Most notably, in Q1, a global leader in nutrition replaced our largest competitor with Freshservice in what represents the largest new customer deal in our company's history. They were seeking a solution that could handle enterprise-grade scale without sacrificing the intuitive experience necessary to manage their complex workflows.

Following that historic win, Piedmont Healthcare also selected Freshservice over our largest competitor, citing our significantly lower total cost of ownership, faster implementation and enterprise capabilities.

Finally, Reed, the UK's number one specialist recruitment company, moved to Freshworks to achieve a faster and more collaborative enterprise IT experience. These wins underscore a clear trend: organizations are increasingly choosing our platform for its ability to deliver sophisticated results without the traditional overhead.

Freshworks' ability to deliver enterprise-grade outcomes without the implementation drag and administrative burden of legacy systems is exactly why we are displacing vendors whose products have become too expensive and complex for mid-market and enterprise customers to maintain.

We are also expanding our right to win by integrating and broadening our EX offerings. In March, we launched a new Freshservice ITAM experience, bringing Device42 capability natively into Freshservice and making it easier for customers to use in a single cloud experience. We also completed the acquisition of FireHydrant, which advances our vision for an AI-enabled service ops platform that unifies

service, asset and operational data. We will complete the integration of FireHydrant over the course of 2026.

Moving on to our AI progress, Freddy AI continues to be embedded throughout our platform, enhancing customer outcomes today while building toward a long-term monetization opportunity. Freddy AI Copilot is one of our fastest growing products with strong customer growth, new business attach rates, and higher expansion among AI customers. In Q1, Freddy AI Copilot customer growth exceeded 80% year-over-year and the attach rate growth in new deals over \$30,000 in ARR was above 65%.

Specifically, in our EX business in Q1, our customer penetration for AI surpassed 20%, nearly doubling year-over-year, and roughly a third of all new EX customers in Q1 had Copilot attached. Amerisure, a commercial insurance provider and EX customer, has been able to transform service delivery within a single platform using Freshservice's AI-driven workflows and Freddy Insights.

With Freshservice for Business Teams, the use case has expanded beyond IT into legal, HR, underwriting and marketing, saving thousands of hours in 2025 alone and cutting employee onboarding resolution time by 97%. We look forward to detailing more about our future AI strategy and EX product innovations at our Refresh event next week.

Turning to our customer experience business, we continued to deliver durable growth with CX ARR up 6% year-over-year in Q1. We are making progress in this business through go-to-market discipline, platform integration, and increased market fit enabled by our AI capabilities. A leading provider of lender-placed insurance solutions consolidated a fragmented stack of JSM, Genesys and SharePoint into a single Freshworks platform. By unifying ticketing, automation and AI in one place, the team reduced manual effort, improved operational visibility, and gained a clear path to scaling support.

Over 80% of our CX customer base has now migrated to the new Freshdesk Omni platform. This successful replatforming is more than just improving consistency for customers. It is the foundational work to enable the next wave of generative AI capabilities in our CX products and accelerate margin accretion.

Since we began offering Freshdesk Omni at the end of last year, ARPA is 2.5 times higher for new Freshdesk Omni customers compared to the prior platform. In lockstep with our focus on durable growth from our EX and CX businesses, we remain committed to driving structural operating efficiencies that support enterprise-grade scale and long-term profitability. Q1 non-GAAP operating margin reached 18%, nearly 3 points above our estimate, reflecting the disciplined execution we expect to sustain throughout 2026.

Today, we announced some workforce changes we are making to the company in Q2 to consolidate overlapping go-to-market efforts, streamline our product development process, and apply AI and automation across our business. These actions enable us to focus energy on our momentum in EX and accelerate Freshworks' competitiveness. Tyler will provide the financial impact and updates to our outlook in his remarks.

Turning to capital allocation. Our operating model continues to deliver durable free cash flow. This operational strength allows us to take a balanced approach to capital allocation, reinvesting in high return growth opportunities while also returning capital to shareholders.

In February, our board authorized a new \$400 million share repurchase program, reflecting our confidence in the intrinsic value of our business. In Q1, we reduced shares outstanding by approximately 2%. We remain confident in our ability to compound adjusted free cash flow and drive long-term shareholder returns.

Overall, Freshworks achieved significant progress in Q1, accelerating our momentum with profitable growth fueled by our EX opportunities. By structurally shifting our operating model over the last two years, we have established a durable framework that balances top line performance with capital efficiency. Our long-term focus is on compounding adjusted free cash flow per share. Having more than doubled this metric over the last two years, we are now positioned to compound adjusted free cash flow

per share by at least 20% annually over the next three years. We will share more details on the operational drivers and our long-term vision at the Refresh event next week.

I'll now turn it over to Tyler to walk through our financials.

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Thanks, Dennis; and thanks, everyone, for joining on the call and via webcast today.

We kicked off 2026 with strong results, exceeding our expectations on revenue, non-GAAP operating income and free cash flow. Our Q1 performance reflects accelerating momentum and strong retention in EX, increasing success in the enterprise market, and disciplined operational execution across the business.

For our call today, I'll cover the Q1 2026 financial results, provide background on the key metrics, and close with our forward-looking commentary and expectations for Q2 and full year 2026. As a reminder, most of my discussion will be focused on non-GAAP financial results, which exclude the impact of stock-based compensation expenses, restructuring charges and other adjustments.

I will also talk about our adjusted free cash flow, which excludes the cash outlay related to the cost associated with the Q2 restructuring announced earlier today. To provide greater transparency into our underlying business performance, I will also include constant currency comparisons throughout today's call.

Starting with the income statement. We had a strong first quarter. Total revenue reached \$228.6 million, up 16% year-over-year as reported or 14% on a constant currency basis. Within this total, professional services revenue was approximately \$2 million. Professional services revenue grew in line with our internal expectations and is a key component of our overall customer success strategy, ensuring successful deployment and adoption of our platform.

EX continues to be our primary growth engine and EX ARR ended at over \$540 million, growing 27% year-over-year on an as-reported basis and 25% on a constant currency basis. This performance was supported by strong expansion and new logo activity, including the two largest new business contracts in our history. These large wins validate our enterprise readiness and competitive positioning up market. Looking ahead, we anticipate EX ARR to grow in the mid-20s and EX ARR to be over 60% of total ARR by year-end.

Turning towards our CX business. We ended Q1 with over \$395 million in ARR, up 6% year-over-year on an as-reported basis and 4% on a constant currency basis. The replatforming work we are doing to Freshdesk Omni to improve product consistency, support AI adoption, and increase the competitiveness of our platform is on track and will enable efficiency gains for the CX business over time. We have a disciplined focus on our CX business as we complete our customer migration and tighten alignment with our ideal customer profile. Going forward, we are adopting a prudent outlook and anticipate CX ARR to grow in the low-single-digits in 2026.

Moving to margins. We demonstrated the durability of our business model by maintaining a non-GAAP gross margin of 86.3% in Q1, consistent with prior quarters. Our non-GAAP operating income for the first quarter of 2026 reached \$41 million, translating to a non-GAAP operating margin of approximately 18%. This performance surpassed the high end of our initial expectations for the quarter.

The key drivers behind this result were twofold: strong top line performance and continued efficiency gains realized across various lines of our operating expenses. We are structurally continuing to shift our business towards GAAP profitability and strategic efficiency gains, driving a meaningful improvement in margins throughout the year.

As Dennis noted, today we announced some operational changes to our workforce that we are making to consolidate overlapping organizational efforts, streamline our product development process, and increase the leverage of AI and automation across our business. As a result of these actions, we are reducing our global head count by approximately 11%. We anticipate taking one-time restructuring

charges of approximately \$8 million with the vast majority in Q2. In a moment, I will discuss our updated Q2 and full year estimates that incorporate the financial impact of these actions.

Moving to operating metrics. Net dollar retention was 106% on an as-reported basis and 105% on a constant currency basis, a 1 point acceleration from the prior quarter. Within this, we are demonstrating strong momentum in the expansion growth of our EX business. Q1 EX net dollar retention achieved 111% on an as-reported basis and 109% on a constant currency basis. Going forward, we expect to sustain net dollar retention of approximately 105% on a constant currency basis for Q2 2026. As a reminder, this excludes any impact from D42 legacy customers.

Moving on, I would like to provide some additional color on results from our customer cohorts. Customers contributing more than \$50,000 in ARR grew 22% year-over-year as reported and 20% on a constant currency basis. This cohort now represents over 55% of our total ARR. Customers contributing more than \$100,000 in ARR grew 29% year-over-year as reported and 26% on a constant currency basis. This cohort represents approximately 39% of our total ARR.

Double-digit growth in our larger customer cohorts was driven by the strong performance within EX, which we believe validates our strategy to increase our focused investments on mid-market and enterprise EX customers. The accelerating growth we are achieving tells us we are structurally well-positioned to capture a disproportionate share of the future EX market and sustained durable growth from our most strategic customers.

Now let's turn to calculated billings, balance sheet and cash items. Calculated billings came in at \$235 million in Q1, up approximately 16% year-over-year as reported and 13.5% on a constant currency basis. For Q2, we estimate billings growth of approximately 14.5% on both an as reported and constant currency basis. Looking ahead, we expect billings growth to be in line with revenue growth for 2026.

Our cash position remains strong. In Q1, we generated \$55.8 million in free cash flow, representing a 24% margin and slightly better than our expectations. Adjusted free cash flow per share was \$0.20, an 8% increase over the prior year. This metric underscores our operational efficiency and our disciplined approach to converting growth into tangible shareholder value.

Turning to our capital structure. We view share repurchases as part of a disciplined capital allocation framework and a reflection of our confidence in the long-term opportunity ahead. In Q1, we repurchased 5.7 million shares for \$45.4 million while utilizing an additional \$7 million to offset dilution through the net settlement of vested equity. We ended Q1 with approximately 318 million fully diluted shares outstanding, down 2% year-over-year. Included within this was approximately 279 million basic shares outstanding, which also declined year-over-year. We ended the quarter with \$780 million in cash and investments, providing ample financial firepower to continue our repurchase program while investing in future growth.

Now on to our forward-looking estimates. As a reminder, our non-GAAP net income projections for 2026 assume a tax rate of 24%. For the second quarter of 2026, we expect revenue to be in the range of \$232 million to \$235 million, growing approximately 13% to 15% year-over-year; non-GAAP income from operations to be in the range of \$41 million to \$43 million; and non-GAAP net income per share to be approximately \$0.13 assuming weighted average shares outstanding of approximately 280 million shares.

For the full year 2026, we expect revenue to be in the range of \$958 million to \$964 million, growing approximately 14% to 15% year-over-year; non-GAAP income from operations to be in the range of \$207 million to \$215 million; and non-GAAP net income per share to be in the range of \$0.61 to \$0.63, assuming weighted average shares outstanding of approximately 281 million shares.

Looking ahead, for the full year 2026, we expect to generate approximately \$265 million of adjusted free cash flow. Within this, we expect to generate adjusted free cash flow of approximately \$57 million in Q2. This results in adjusted free cash flow margin of 24% and 27.5% for Q2 and full year 2026, respectively. Our full year 2026 outlook for adjusted free cash flow per share is \$0.94, up 24% compared to fiscal 2025.

As a reminder, cash used for stock repurchases is reflected in our financing activities and is excluded from our adjusted free cash flow calculations. Finally, our forward-looking estimates are based on FX rates as of May 1, 2026 and do not take into account any impact from currency moves.

Overall, Freshworks delivered a strong start to 2026, establishing a solid foundation for the year ahead. We remain confident in our ability to consistently exceed our strategic goals as we drive durable growth and expanding profitability. To that end, our internal metric that best aligns with our strategic priorities and long-term shareholder value creation is growth in adjusted free cash flow per share. Over the last two years, we have more than doubled our adjusted free cash flow per share results. More importantly, we have laid the foundation to compound adjusted free cash flow per share by at least 20% annually over the next three years. We look forward to sharing more details on this metric, the operational drivers behind it, and our long-term vision at our upcoming Financial Analyst session at our Refresh event next week.

Thank you. Operator, we are ready for Q&A.

Question-and-Answer Session

Operator

Thank you. Your first question comes from Scott Berg at Needham & Company.

Lukas Granville Metcalfe | *Needham & Company, LLC*

Hi everyone. Lukas Metcalfe on for Scott Berg. Thanks for taking the questions. On the employee experience side of things, what kind of drove the variance to the high end of your implied year-over-year constant currency revenue growth here in the first quarter? Historically, that's kind of tended to skew towards the higher end. So, just trying to understand any changes in the quarter here.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Hey it's Dennis here. So, first of all, I think we just continue to see real momentum on that EX business. And the move up market is working. And you see that in a couple different ways. If you look at our growth of accounts that are spending more than \$100,000 with us, that's up 29% year-over-year. We had our biggest deal ever, biggest land ever, a large nutrition company that was a 10-year customer of one of our competitors that is moving over to us for all the reasons that we've talked about in the past: enterprise-grade scale, much faster time to value, easier to manage the platform, AI capabilities. We had actually our second largest land ever with a large healthcare provider, a very similar story.

So, the upmarket motion just continues to drive the overall EX business. We have built over the last couple of years a platform that extends from service management to operations management, FireHydrant to asset management, we brought the Device42 capabilities into the cloud. We launched that last quarter. And then into ESM. And that's what customers are looking for in particular in the mid-market that customer that's from 5,000 to 20,000 employees. We call these mid-market or agile enterprises. They're looking for a provider that really can keep up with them. And that market is big and we're continuing to work there. Tyler?

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Yeah. And Lukas, thank you for the question. In general, EX is doing really, really well. It organically is accelerating growth and that's something we're really proud of. We've been talking about it for a couple years now, and we're seeing great product market fit. And you're seeing it now evidenced in some of the larger customers choosing us over our biggest competitor.

Lukas Granville Metcalfe | *Needham & Company, LLC*

Got it. Thanks. That's helpful. And then just a quick follow-up. We know you guys were kind of reviewing pricing changes earlier in the year. Do you guys have any kind of updated view on the impact kind of on pricing changes that kind of impact on your full year guidance?

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Yeah. We had pricing changes, but I would say they're not material to our guidance, right. We're going through a normal process with our customers as they renew, which is more of a CPI type of increase that any other software company would do. This is something we put in place a year-and-a-half ago. But in general, there's not an impact to our guidance because of pricing changes. The impact is really because the new business is going really well on the EX side.

Lukas Granville Metcalfe | *Needham & Company, LLC*

Understood. Thank you.

Operator

Your next question comes from the line of Elizabeth Porter at Morgan Stanley.

Oscar R. Saavedra | *Morgan Stanley & Co. LLC*

Hi. You got Oscar Saavedra on for Elizabeth. Thank you for taking my question. Maybe I want to stick with the Freshservice. Nice to see the wins that you called out against your largest competitor. As we think about that and that opportunity, how would you characterize the pipeline building? And sort of I would imagine the longer sales cycle, but anything you can share on how that's looking.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Yeah. So, the pipeline going into this quarter looks fantastic. The pipeline going into last quarter looked pretty strong as well. We're seeing, like I said, just continued momentum in the larger end of the deal cycle. We still have a lot of mid-sized deals that come in every quarter. But we're pretty happy with how the pipeline is shaping up this quarter. Everything looks good. Anything to add, Tyler?

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

No. I think it's just a continuation from what we saw coming into the year. We talked about that we've been building out this field motion over the last year, and last year is about kind of putting the leaders in, and those leaders started filling out the roles underneath them. And these are sales reps and also CSMs and AMs who can actually engage with larger customers. We're building that muscle. And part of that's pipeline muscle as well. And yes, we're seeing really, really strong pipeline in the field for EX in particular.

Oscar R. Saavedra | *Morgan Stanley & Co. LLC*

Got it. Got it. And maybe a follow-up around seat expansion, big debate around whether – there's lower head count among customers, but your NRR picked up quarter-over-quarter on constant currency. So I was wondering if you can share some details on whether that was more of an upsell driver or you also saw strong seat expansion.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

So, we saw strong new business wins. We saw strong seat expansion as well. And remember, our product portfolio is broadening. We have additional seats that are accessible to us outside of the core IT department through ESM. ESM has been a big growth driver for us over the last year. We talked about that in the past. We have asset growth. So, through advanced ITAM that monetizes on an asset base, so you pay for every piece of software, piece of hardware that's cataloged by the system.

And remember, we're in a position of taking share. We are not in a position of defending a large market share that we've accumulated over long period of time. We very much are taking share from the bigger players. So, that creates an opportunity for us to gain seats regardless of what the overall market is

doing. We have not seen seat erosion. Seat growth for us continues to be a meaningful driver of our business. And our business model is evolving. We have consumption-based offerings like Freddy AI Agent. We have asset-based offerings like Advanced ITAM. We have resolution-based or other offerings that are based on more transactional values.

So, we think the model will continue to evolve over the course of the remainder of the year. And we're excited about some new products that we've got coming out next week that also will enhance the monetization story particularly around AI.

Oscar R. Saavedra | *Morgan Stanley & Co. LLC*

Very clear. Thank you very much.

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Thanks, Oscar.

Operator

Your next question comes from the line of Patrick Walravens at Citizens.

Austin Cole | *Citizens JMP Securities LLC*

Great. Thanks for taking the question. This is Austin Cole on for Pat. Dennis, I was wondering if you could just maybe kind of double click into that what allowed you to win that largest deal? And then to the extent that in this upmarket motion that there is interest in the AI solutions and in Copilot would be helpful. Thank you.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Sure. So, customers in that mid-market and kind of lower end of enterprise space are looking for an enterprise-grade platform that extends from service management through to operations management, asset management and ESM. They're looking for a solution that's going to be very fast in terms of time to value. They're looking for a solution that has proven itself as a – in the ability to transition other large similar customers from some of these more legacy platforms on to our platform and then get them up and running fast and make them successful. They're looking for that AI functionality today as well as the roadmap. And they appreciate the ability to have choice in the platform as to how they want to consume AI over time. So, some want to lead with provisioning their agents with Copilot, others want to go directly into agentic AI.

One of the things that we're going to do next week, our event next week is Refresh for EX specifically. We're going to be announcing a number of product enhancements that are leaning into this enterprise motion, leaning into the ability to offer our customers more choice. We're going to be rolling out AI Agent Studio for EX, which allows our customers to build their own agentic capabilities directly in our platform. That will come with 20 preconfigured workflows for things like onboarding and offboarding, provisioning software, changing passwords and so forth. And we're also announcing alongside that our MCP gateway, which will allow customers that want to bring their own AI or build agents in Claude, build agents in ChatGPT to do so, and take advantage of the data and information that's in our platform through MCP calls, which we'll monetize over time.

So, we have a lot going on that is going to continue that drumbeat upmarket. Like I said, we've launched our cloud-based version of IT Asset Management, Advanced ITAM a month ago. That's available for all of our customers now. We had a lot of customers that are cloud-first, they don't want an on-prem product. Device42 historically was on-prem. So, that opens up another avenue of growth. And then FireHydrant, we have a new integration with Freshservice, so you can see your data [indiscernible] all through Freshservice. That's another vector of growth that we're opening up this quarter.

So, that EX motion continues to be strong, that's driving the business 27% year-over-year growth this past quarter. We see that continuing to be a bigger part of our business, continuing to be the majority of the business overall and really drive the growth. We've oriented the company around that in terms of

investment on the go-to-market side, investment on the engineering and product side, and that's what we're leaning into, that's where we're going to drive growth for the full business.

Austin Cole | *Citizens JMP Securities LLC*

Great. Thank you.

Operator

Your next question comes from the line of DJ Hynes at Canaccord.

David Hynes | *Canaccord Genuity LLC*

Hey guys. It's actually DJ. Dennis, so I hear largest deals ever, I hear pipeline is fantastic, signs of organic acceleration. Why the decision to restructure now? And I guess, where will those optimizations mostly be focused?

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Yeah. Look, I think overall we're building an agile company that can deliver strong free cash per share growth while fueling that EX business that's growing at 27% year-over-year. A couple of reasons that we did it now. I think the first was we recently consolidated our go-to-market strategy we had. I wouldn't say equal, but a more equal focus on inbound versus outbound. And we're increasingly focusing on that EX business, which is primarily an outbound motion, and focusing on CX – acquiring CX customers with better unit economics. So, that's led us to rebalance our teams more towards EX and to rebalance our spend more towards EX. And then really to run that CX business to drive profitability, drive cash that we're reinvesting back in EX.

I think the second is, we've over the last year, year-and-a-half invested a lot in changing the way we build product to embed AI into the development process, which has resulted in much shorter cycle times. Over half of our code is originated in AI today. And like many other software companies, that is definitely changing how we build products, how fast we can build products, and the amount of people that we need to build products. So, that would really be the second.

And then throughout the whole business, we've been investing in automation and AI to streamline the way we do business to move faster. All of those things contributed to the decision to actually do the restructuring, and it sets us up well for the rest of the year. It allows us to continue to invest in growth initiatives around that EX business and then continue to run the CX business for profitability and to be super-efficient.

David Hynes | *Canaccord Genuity LLC*

Yeah. Yeah. Okay. And then, Tyler, a follow-up for you. What does dollar-based net retention look like if we were to just look at the EX business? I don't need like a point estimate, but just broad strokes, like, where are we with dollar-based net retention on EX?

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Yeah. No, I think we said it. The net dollar retention for EX is still over 110%, coming in right around 111% and 109% at constant currency. It's really, really solid. And that includes a little bit of headwind that we're still facing from the Device42 legacy churn. Those are multi-year contracts. So, we've been talking about that since we bought Device42. So, we're really pleased about that. And we've been saying that on a weighted average basis, as EX continues to grow faster, this is going to help us out. And we saw a slight acceleration to overall NDR this quarter as a result, right. So, EX NDR is good. And we're now just introducing more and more products that are going to be upsell capabilities against our core Freshservice.

David Hynes | *Canaccord Genuity LLC*

Yeah. Yeah. Okay. Perfect. Thank you, guys.

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Thanks, DJ.

Operator

The next question comes from the line of Alex Zukin at Wolfe Research.

Alex Zukin | *Wolfe Research LLC*

Hey guys. Thanks for taking my question. Maybe just first on the financials. Tyler, it looks like kind of you did accelerate revenue to accelerate billings growth constant currency in the quarter. You're guiding for accelerating constant currency billings growth next quarter. Anything one-time in nature that you would kind of call out this quarter? And then maybe why – was there anything that made it such that you were kind of in line with your constant currency revenue guide rather than ahead of it for – at the high end?

Tyler R. Sloat | *Chief Financial Officer and Chief Operating Officer*

Yeah. There really wasn't any one-time. In the past quarters, we've called out if we had any significant Device42 deals that would have had accelerated revenue on the front end. In fact, we've been talking about we've had some churn on Device42 which actually is somewhat of a headwind against revenue growth because, as those deals renew, we get kind of upfront sums on that old term license stuff.

So, no one-time events there on the positive. It was just really good execution and go-forward execution as well, right. We rolled through the beat for the year. We're really quite positive on what happened in the quarter specific to EX. We're being really prudent about our estimates for CX going forward. We are internally optimistic, but externally we want to be prudent about that. But in general, we think we had a really good quarter.

Alex Zukin | *Wolfe Research LLC*

Perfect. And then just maybe as a follow-up, Dennis, for you, kind of a lot of noise in the market these days about some vendors going more upmarket, some vendors going more down-market. Just what are you seeing kind of generally in kind of your swim lanes from competitors both higher and lower? And then maybe any consensus view on just the AI anxiety if that's having an impact on sales cycles? It doesn't seem to be for you guys given the larger deals that you're closing. But any kind of color there would be helpful.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Yeah. I'll start with the second part. We don't see any AI anxiety slowing deals or impacting deals. In fact, as we said in the prepared comments, most of our larger deals now are coming in with an AI component and AI is core to the pitch, the discussion on roadmap, all that matters for the customers that are coming over. But at the same time, customers are coming over not just for AI. They're coming for the full platform that I've been talking about. They need the full capability across different departments within IT and outside of IT to make the switch.

I think on the competitive side, we haven't seen any major changes in competitive dynamics. On the EX side, the primary competitors are on the kind of large side, ServiceNow and Atlassian. And then there's a long fragmented tail between Ivanti, Cherwell, BMC and a bunch of others.

On the CX side, it tends to be more fragmented. Zendesk and then a bunch of smaller players. And I haven't seen that – I wouldn't say that that's changed dramatically. We're really confident about our ability to win against those larger competitors on the EX side. We have many deals that we closed this past quarter. I highlighted a couple, largest deal ever for us, second largest deal ever, both multi-year customers of our largest competitor. But there's many, many other deals every single quarter that come in against them where if you are a company that's in that, let's say, 5,000 to 20,000 employee range, we've got the right product for you. And that's becoming more and more apparent to the market.

I think on the CX side, competitive dynamics are kind of similar to the way that they have been. AI certainly is more prevalent in those conversations. We're purposefully focusing our CX team on the customers within the sort of SMB, commercial and kind of mid-market space. Where we have a strong unit economics, there's strong expansion dynamics, we're no longer chasing micro deals, smaller deals in the lower end of that market, which in the past we had. That's why you're seeing more efficiency be the focus there. And I think with the replatforming, there's some real positive signs.

We have over 2.5 times ARPA for new customers that are signing up for new Freshdesk Omni. That is a really positive sign. If we can kind of keep that trend going, if we can realize the price increases that do come from migrating customers from other products on to that single Freshdesk Omni product, that will flow through to the CX line over time. We are being conservative in how we view the rest of the year. Our guide implies low single-digit growth for that CX business because we want to see how it plays out over the course of the next quarter or so.

So I think overall, we're set up for a good year. We raised our non GAAP operating profit by something like \$26 million. And we see the ability to really drive a profitable business with that mid to high teens growth overall over the course of multiple quarters.

Alex Zukin | *Wolfe Research LLC*

Perfect. Thank you, Dennis.

Operator

Your next question comes from the line of Brian Peterson at Raymond James.

Brian Peterson | *Raymond James & Associates, Inc.*

Thanks, guys. And I'll keep it to one. So, Dennis, maybe just wanted to understand or get an update on your channel efforts, how big are those bookings or pipeline generation today? And as you kind of build out the broader EX suite, does that change the tenor of what those conversations are like with some of your channel partners and how you could expand that base over time? Thanks, guys.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Yeah. Yeah. Thanks for the question. I would say most of our channel partners are regional service providers that historically may have specialized in JSM or Ivanti, BMC, but they're more the regional players and they're very important. They're driving meaningful business for us. We do have a couple of GSIs that we've been working with. Unisys is one. But I would say that that's quite nascent. We brought in a new channel leader who is very much focused on moving that business up and focusing on the GSIs. There is interest, for sure, because there's a realization that the customers in that sort of lower side of the enterprise market are looking for choice, and we have a great product. So I think we're going to continue to invest in the channel there. But I would say the dynamics right now are pretty favorable in the more regional side of things. The GSI side is really nascent.

Brian Peterson | *Raymond James & Associates, Inc.*

Thank you.

Operator

Your next question comes from the line of Billy Fitzsimmons at Piper Sandler.

Billy Fitzsimmons | *Piper Sandler & Co.*

Hey guys. Thanks for taking my question. Dennis, I don't want to get ahead of ourselves here, but you kind of mentioned in the prepared remarks the potential of monetization of – well, you talked about kind of opening up the platform to third-party agents. And there's a couple other enterprise software companies who have talked about like the potential monetization of third-party AI agents. Just how – again, I don't want to get ahead of ourselves, but how should we think about that potential within the

platform? And then good to see some of these kind of large EX displacements. How should we think about like the repeatability of these kind of over time? Thank you.

Dennis M. Woodside | *Chief Executive Officer, President and Director*

Yeah. So I would say on the EX displacements, we've been doing this for a while where we've been winning these bigger deals and highlighting them to you every quarter. We'll continue to do that. I think the metrics where it shows up, look at that customer count of over \$100,000 customers, that's up 29% year-over-year. You can calculate the ARPA for the business as a whole. That's been growing really nicely. So, we think it is completely repeatable. We're repeating it every single quarter. Our pipeline bigger this quarter than last quarter, meaningfully larger than it was a year ago. So, that's what's driving our business now the upmarket motion in these larger accounts.

On MCP or on opening up the platform, next week at our Refresh EX event, we will reveal basically our MCP gateway, which is a way for customers who might want to create an analytics platform that is broader than EX. They might want to combine data from multiple systems and put it in a data lake and apply AI on top of that. So, they're going to be needing to pull and put information in our system. That's what we're sharing, which is an MCP gateway will monetize it over time, but it's a way for us to participate in AI that our customers are driving outside of our AI. And it allows our customers to have some choice in how they want to build their business and take advantage of AI.

In some cases, they'll use our Copilot or they'll use our AI agent. In other cases, they'll want to build their own agents that interact with the data and the systems that we've built within Freshservice and both extract data and drive actions within Freshservice. So we're building a system that's open to that and that over time can monetize both of those. And we'll have a lot more details next week at the launch.

Operator

There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.