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Presentation

Operator

Hello everyone, thank you for joining us and welcome to Freshworks Second Quarter 2026 Earnings Conference Call. [Operator Instructions] I will now hand the conference over to Kate Scolnick, VP of Investor Relations. Kate, please go ahead.

Kate Scolnick

Thank you. Good afternoon, and welcome to Freshworks Second 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 the information regarding our second quarter 2026 performance and our financial outlook for our third 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 macroconomic 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 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. I will now turn the call over to Dennis. Please go ahead.

Dennis M. Woodside
CEO, President & Director

Good afternoon, everyone, and thank you for joining us. Freshworks is the AI-powered unified service operations platform for the modern agile enterprise. In Q2, we delivered another quarter of strong growth and profitability. Revenue was $237.4 million, up 16% year-over-year. Our non-GAAP operating margin was 24%. We have now achieved Rule of 40 for 8 straight quarters. We are growing our business with discipline quarter after quarter.

In Q2, we also achieved a meaningful financial milestone. We reported positive GAAP net income ahead of our previously given expectations. GAAP profitability is no longer just a goal. It is here, and it is funding our investments in EX and AI.

And we expect to sustain our GAAP profitability. At our investor event during Refresh in May, we laid out 5 key messages about the durability of our business. Before I get into the quarter, I want to remind everybody of those messages.

First, we are an EX first company. When Freshworks went public, 35% of our total ARR came from our employee experience business. By year-end 2026, we expect EX ARR will exceed 60%. Now the market opportunity in EX is significant. The total addressable market we are pursuing spans ITSM, ITAM, ITOM and ESM and is roughly $45 billion, growing 13% a year. We are focused on businesses with up to 20,000 employees, which represent about 60% of that overall total addressable market. It's large, fragmented and no single player in this segment holds more than a 20% share. That leaves plenty of room for Freshworks to win.

Second, we are a category leader with agile enterprises and in the mid-market. Freshservice has over 20,000 customers globally with EX ARR up 5x from where we started at the beginning of 2021 just 5 years ago. Freshservice serves companies that carry the complexity of an enterprise but require the speed and agility of a modern platform. Recently, Gartner named Freshworks a leader in the 2026 Magic Quadrant for IT service management platforms. We feel our positioning as a leader by Gartner highlights a clear shift in the market. We're focused on giving agile enterprises the depth and scale they need alongside domain-specific AI so that they can move at the speed of their business while staying firmly in control.

Third, AI is a tailwind, enabling growth in our business. Over 7,000 customers are paying for an AI SKU. Our Copilot attach rate on larger deals exceeds 70%, our products allow customers to adapt to an agentic world quickly and achieve measurable IT efficiencies faster.

Fourth, we are profitable and scaling. We're demonstrating operating leverage and purposefully concentrating our investment to expand our EX business.

And our fifth key message, we are committed to capital efficiency and prudent capital management. Tyler will cover this in more detail as we bring together how Q2 delivered on all 5 of these key objectives.

Now let's look at the results from the quarter, starting with EX. Our EX business demonstrated continued growth and large deal traction. EX ARR grew 24% on a constant currency basis, ending the quarter at $567 million, and representing approximately 59% of total ARR. Why are we able to consistently grow EX? Two reasons. First, large customers are actively choosing Freshworks to displace incumbents that no longer serve them. Take Seagate, a global leader in hard drives with 30,000 employees. After 14 years with a legacy provider, they struggled to extract value from AI, were unable to adapt workflows as the business evolves, and were paying for dedicated specialists just to manage the complex system. They evaluated the market, they chose Freshservice and were live in 3 months, that speed to value is what Freshworks delivers.

Another example is American Oncology Network, a nationwide cancer care network supporting over 140 clinic locations. They implemented Freshservice for IT, Freshservice for business teams and Freddy AI Copilot in under 30 days. Today, their EX platform has expanded to 7 business departments beyond IT, and it takes just 1 administrator less than 2 hours per week to manage the entire environment. That upmarket momentum shows in our numbers. Customers contributing more than $100,000 in ARR, grew 25% year-over-year and now represent roughly 40% of total ARR.

We believe that's the clearest evidence our enterprise motion is working and it's accelerating, not slowing down. Second, we are expanding our right to win by broadening our EX platform. Freshservice ITAM makes infrastructure visible and actionable giving IT teams the context they need for unified service operations. Our offering is powered by Device42, a company we acquired a little over 2 years ago. And today, we offer both on-prem and cloud native advanced ITAM products. About 1/3 of large new EX lands now include ITAM. And in Q2, we had the strongest new logo quarter for this business yet. We are actively serving new Freshservice ITAM cloud customers on our platform, such as DriveTime and Radio France. Our enterprise service management crossed $50 million in ARR this quarter growing 67% year-over-year.

ESM continues to be a major long-term growth vector for Freshworks as 1/5 of new EX seats are coming from outside IT. Our investment in fire hydrant showed results this quarter. FireHydrant generated its first 6-figure expansion deal since joining Freshworks and was 1 of our top 3 largest deals of the quarter. This customer is a global cybersecurity leader that chose to consolidate their alerting and incident management on to FireHydrant.

Stepping back, Freshworks EX business is in the strongest position in the company's history. We are winning against incumbent and legacy providers expanding our customer base with new platform offerings, growing deal sizes and strengthening our market leadership.

Now let's talk about how we are innovating with AI. Freddy AI continues to be embedded throughout our platform, delivering real value for customers while building towards the long-term monetization opportunity. At Refresh, we launched 2 new AI products for Freshservice. Freddy AI agent studio, a no-code environment for rapidly building domain-specific AI agents, and MCP Gateway, which connects Freshservice intelligence to AI tools customers already use, including Claude and Microsoft's Copilot.

Despite being available for a short time, we have hundreds of customers using both products in our early access program today. The productivity gains our customers are experiencing with AI are substantial and real. Agents using Freddy AI Copilot handle 50% more tickets. That means they are 50% more productive. That's huge for customers. Freddy AI Agent deflection rates averaged 50% and reach as high as 80% for mature deployments. With Freddy AI, customers are changing the economics of how they run service operations. And we are monetizing AI, Copilot attach rate for new deals above $30,000 exceeded 70%.

Eligible EX customers paying for Copilot increased to 22% of our installed base in the quarter. And EX customers with AI continue to carry higher NDR well above total company NDR. iQor demonstrates what Freddy AI can do at enterprise scale, a global BPO with more than 40,000 employees, iQor had a mandate to modernize and automate. They replaced a legacy on-premise system with Freshservice and Freddy AI, now they have an agentic AI solution that is fully automated 35% of their IT service delivery and cut monthly ticket volume by 39%.

Turning to the results and highlights of our CX business in Q2. We're seeing steady ARR growth and significant progress on our platform migration. CX ARR grew 4% on a constant currency basis, ending the quarter at $400 million. As of Q2, over 90% of Freshdesk customers have migrated to the new platform. Freshdesk Omni is delivering measurable value for our mid-market customers. They are reporting real efficiency gains, including up to 97% first contact resolution, 60% higher agent productivity and 95% CSAT.

These customers are benefiting from an AI-ready platform that provides the unified context needed to deliver better AI outcomes. In Q2, CX AI agent sessions and conversations on Freshdesk Omni were both up 60% quarter-over-quarter and more than fivefold year-over-year. Take Fleet Claims, a U.K.-based motor fleet accident management company. They have reported that they have been able to use our Email AI to resolve about 10% of their tickets without any agent involvement and amplified the importance of being able to respond faster than ever, especially outside business hours.

Our CX organization is now fully aligned to drive efficiency and customer value. As of July 1, we've consolidated our CX organization in India. Our GTM product and engineering teams are all co-located in driving that business. Looking ahead, we're encouraged by our Q2 CX developments and have a positive outlook on our ongoing growth opportunities for this business.

Taken together, our EX momentum and a more disciplined CX business confirmed that Freshworks is delivering on our mission while investing in our future. As we announced last week, I'm pleased to welcome Ryan Manning to Freshworks as Chief Product and Technology Officer. Ryan will bring deep product and engineering leadership, having built and scaled category-leading platforms across service management and CRM. He joins us from BMC Helix, where he served as Chief Product Officer, with prior leadership roles at Coupa and ServiceNow. Our platform is stronger and broader than ever.

AI monetization is taking shape, and our financial model is delivering solid results. We are the AI-powered unified service operations platform for the modern agile enterprise and Q2 delivered on that. I'll now turn it over to Tyler to discuss our financials.

Tyler R. Sloat
CFO & COO

Thanks, Dennis, and thanks, everyone, for joining on the call today. We had a strong second quarter, our seventh consecutive quarter exceeding revenue expectations, and we achieved positive GAAP net income ahead of plan. For our call today, I'll cover the Q2 2026 financial results, provide context on key metrics and close with our updated outlook for Q3 and the full year 2026. As a reminder, most of my discussion will be focused on non-GAAP financial results.

I will provide comparisons on both an as reported and a constant currency basis where available. Starting with the income statement. Total revenue reached $237.4 million in Q2, up 16% year-over-year as reported and up 15% on a constant currency basis, above the high end of our estimates range. Professional services revenue was approximately $3 million, slightly higher than prior quarters.

EX continues to be our primary growth engine. EX ARR ended Q2 at $567 million, growing 23% year-over-year as related and 24% on a constant currency basis. As Dennis covered, the growing breadth of our platform that covers ESM, ITAM and ITOM is enabling us to win business well beyond core ITSM, and is broadening the EX growth base. Looking ahead, we continue to expect EX ARR to grow in the mid-20s and to exceed $600 million exiting 2026.

Turning to our CX business. CX ARR ended Q2 at $400 million, growing 3% year-over-year as reported and 4% on a constant currency basis. This performance reflects the deliberate operating plan we have in place to run CX with a focus on profitability and for steady-state growth. The actions we took in May have facilitated better efficiency and focus in our CX business and the Freshdesk Omni platform is demonstrating strong market fit for our mid-market ICPs.

We continue to expect CX ARR to grow in the low single digits for the full year 2026. Moving to margins. Non-GAAP gross margin at 86% remains consistent with prior quarters. Non-GAAP operating income for Q2 reached $55.9 million, well above estimates. This performance reflects continued top line leverage as well as the partial impact of restructuring savings. Most notably, we achieved positive GAAP net income this quarter.

Q2 GAAP net income was $3.2 million, with GAAP EPS of $0.01 and non-GAAP EPS of $0.17. We set a goal to reach GAAP profitability by the end of 2026, and we achieved this ahead of schedule. To be clear about how we're allocating the benefit of operating leverage in our model. As organic growth remains our top capital priority, our first use is continued investment in EX sales capacity and AI R&D. We invested in both of these areas in the first half of the year, and we intend to continue to invest in the second half to support our accelerating growth opportunities in EX.

Turning to operating metrics. Net dollar retention was 104% as reported and 105% on a constant currency basis in Q2. Excluding the legacy Device42 customers, Net dollar retention was 106% constant currency, exceeding expectations. Within this, EX NDR, excluding legacy Device42 customers, was over 111% on a constant currency basis. Looking ahead, we expect NDR and EX NDR on a constant currency basis to be roughly the same for Q3.

Moving on to customer cohorts. Customers contributing more than $50,000 in ARR and grew 18% year-over-year as reported 19% on a constant currency basis. This cohort now represents over 55% of our total ARR. Customers contributing more than $100,000 in ARR, grew 25% year-over-year as reported and 26% on a constant currency basis. This cohort represents approximately 40% of total ARR.

The growth rate of this cohort and mix of total ARR reflects the sustained upmarket shift in our business and validates our strategy of concentrating our ICP in mid-market and agile enterprise customers, and driving an EX multiproduct motion across core ITSM, ITAM, ITOM and ESM improving win rates and deal sizes and new business across the EX portfolio and creating a flywheel for expansion opportunities gives us confidence in sustaining the mid-20s EX growth trajectory.

Now on to billings, balance sheet and cash. Calculated billings reached $245.8 million in Q2, growing 15% year-over-year as reported and 16% on a constant currency basis. For Q3, we estimate billings growth of approximately 13% as reported and 14% on a constant currency basis. Looking ahead, we expect billings growth to be in line with revenue growth for 2026. Adjusted free cash flow was $57.7 million in Q2, which was above our previously given estimates. Q2 adjusted free cash flow margin was approximately 24% and adjusted free cash flow per share was $0.21. We remain on track to meet or exceed our full year adjusted free cash flow per share target of $0.94.

On capital allocation, our framework is to invest in high-return EX growth first, and return excess capital to shareholders second. Year-to-date, we have deployed over $200 million toward our stock repurchase program and reduced shares outstanding by 7%. In Q2, we repurchased approximately 18.3 million shares for $159 million, while utilizing an additional $10 million to offset dilution through our net cash settlement of equity. We ended Q2 with approximately 296 million fully diluted shares and approximately 263 million basic shares outstanding. At the time of our IPO in 2021, we had approximately 323 million fully diluted shares outstanding. We have reduced our fully diluted share count by 8.3% over the past 5 years. We ended the quarter with $665 million in cash and investments with no debt, providing ample financial capacity to continue our repurchase program while still prioritizing investments in future growth.

Now on to our forward-looking estimates. Our non-GAAP net income projections for 2026 assume a tax rate of 24%. For the third quarter of 2026, we expect revenue in the range of $244.5 million to $245.5 million growing approximately 14% year-over-year on an as-reported basis and approximately 14% to 15% on a constant currency basis.

Within this, we are including a $0.5 million headwind from FX, compared to our initial estimates at the beginning of the year. Non-GAAP income from operations in the range of $59 million to $61 million and non-GAAP net income per share of approximately $0.18 assuming weighted average shares outstanding of approximately 266 million shares. For the full year 2026, we expect revenue in the range of $963.5 million to $966.5 million, growing approximately 15% year-over-year or 14% to 15% on a constant currency basis.

Within this, we are including a $2 million FX headwind compared to our initial estimates at the beginning of the year. Non-GAAP income from operations in the range of $222 million to $228 million, and non-GAAP income per share to be in the range of $0.66 to $0.68, assuming a weighted average shares outstanding of approximately 273 million shares. We expect to generate approximately $265 million in adjusted free cash flow. This resulted in adjusted free cash flow margin target of 27.5% for the full year of 2026.

We remain on track to meet or exceed our full year adjusted free cash flow per share target of $0.94, up 24% from 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. Our forward-looking estimates are based on FX rates as of August 1, 2026, and do not take into account any impact from currency moves. Our full year 2026 revenue estimates include $2 million FX headwind.
In closing, we delivered strong top line and bottom line performance in Q2, and we remain confident in our ability to achieve our 2026 financial and operational plans. EX remains our primary and largest growth opportunity. Our AI monetization strategy is on track and our CX business is now best positioned for steady-state growth. We are profitable and have the operating leverage to fund our EX platform growth and AI expansion to meet the demand momentum driving us into the second half of the year. Operator, let's open it up to Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of David Hynes with Canaccord Genuity.

Lucas Lincoln Morison
Canaccord Genuity Corp., Research Division

Great. This is Luke on for DJ. So I'm curious, you guys have always won on the on the enterprise grade without the costs without the complexity of the bigger guys in the space. I'm curious, as you think about layering in -- you've layered in Device42, you have FireHydrant now, maybe you have some security ops down the road. Like how do you think about keeping the product in the implementation experience of that product from getting too complex and potentially weakening that differentiation over time?

Dennis M. Woodside
CEO, President & Director

Yes. Thanks for the question. It's Dennis. That's 1 of the key areas that our engineering and product teams really, really focus on, it's how to -- how we maintain that usability, easy to use, fast time to value, intuitiveness of the product that got us to where we are as we continue to expand the capability of the platform, the enterprise readiness of the platform and so forth. And we work really hard at making that work. We pride ourselves in the focus that we have on design and UX. We've made a lot of strides in unifying our overall design language across all of our products.

For Device42, for example, that product today is now fully available in the cloud. If you go into Freshservice and you're an admin, it appears as a tab as other product would, the design language is the same as what Freshservice is all about. It's -- the way you navigate through the product is the same. Data is pulled seamlessly from the asset management capabilities and the CMDB into the Freshservice module. And so the admin can see all that in 1 place. So that's really important. And that approach that we're going to take to FireHydrant as well later this year. So I think it's something that is critical for us. It's going to remain critical for us to continue to focus on that usability as we broaden the platform.

Lucas Lincoln Morison
Canaccord Genuity Corp., Research Division

Yes. Yes, super helpful. And maybe just a follow-up. One thing that our team has been hearing more of with this new wave of AI native or at least potential new wave of AI native service management vendors they're positioning as an intelligent layer that maybe sits on top of whatever ITSM vendor a customer has already. The pitch there is basically you can modernize the employee experience without ripping out something like, say, a ServiceNow, for example. I'm curious, are you starting to hear discussions around that? And how do you think about competing against that approach?

Dennis M. Woodside
CEO, President & Director

Yes. We're cognizant of the startups out there. We have not seen them competitively that much, if at all. And our -- what we're seeing customers want is a system of record that has the kind of control and security that they need that has AI integrated into it in a way that's usable, that's easy for them to get up and running, that's easier for them to configure. And that's consistent with what we've been building all along in the core Freshservice products. So our AI agent studio, which we launched in May for EX, already has over 1,000 customers on it. You might remember, we launched that product into EA, and we have not priced it yet. The intention is to price in the fall. That will be a session-based pricing model. But that is an example of customers getting value out of our product immediately and really looking to us to provide that experience layer.

So I understand, of course, we're very well aware of the startups coming into the space. But as of yet, we have not seen them make a lot of traction. I think it's going to be hard because to do AI well, you need to understand the operating environment. You need to understand the workflows that already exist, the controls that already exist in the operating environment. That's what we've spent over a decade building.

Operator

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

Patrick D. Walravens
Citizens JMP Securities, LLC, Research Division

Congratulations to you guys on the results. Dennis, I saw that Gartner came out with their new Magic Quadrant, I mean, just like a week ago, and it was nice to see Freshworks in the Leaders quadrant. I think it's been a long time since they've had one of these for ITSM. Does that -- how much does that help? Does that help with lead generation? And does -- I saw Ian posted it? I'm just wondering what that actually ends up doing for you guys?

Dennis M. Woodside
CEO, President & Director

So look, we think it helps a lot now. In part, the reason we're in the Magic Quadrant is because Gartner has gone out and talked to a lot of customers and understands the value that we've been able to provide for those customers, the capabilities of the product and how that's evolved over time. But we're quite happy with that result.

Look, I think -- we've got a lot of ways of driving interest in the business. We've seen a lot more large accounts come in the door that are referred by analysts, referred by other customers. We've got a large cohort now of bigger customers that are on our side and helping us recruit the next generation of customers. You see that in the numbers. You see that in the number of $100,000 accounts growing 26% year-over-year. 40% of our business is now coming from those customers spending over $100,000.

We closed our first $1 million deal back in Q1. We continue to see a lot of momentum among much larger deals. And those are the kind of -- that's the kind of evidence, I think that shows that the work that we put into building this complete platform that can handle service operations from frontline employee questions to solving problems when they arise through FireHydrant and our advanced asset management.

So all those things are what IT departments want in particular in the segment that we're focused on which is those agile enterprises up to 20,000 employees. They don't have the resources necessarily or want to be spending the time and money on managing a more complicated system. They want something that's going to work for them that they're going to be able to modify, that's modern and that's what we provide. So I think the Gartner validates all of that, and we're very happy about that, very proud of that, but we have a lot of work ahead of us, too.

Operator

Your next question comes from the line of Tamjid Chowdhury with Guggenheim Securities.

Tamjid Md Moinuddin Chowdhury
Guggenheim Securities, LLC, Research Division

I guess the first one, it seems like there's a strong momentum in EX from ITAM and ESM cross-sell. That's good to see. Can you talk about how much runway remains for those products within your existing EX customer base? And what penetration looks like today versus where you think it can go?

Dennis M. Woodside
CEO, President & Director

Yes. So we outlined at our investor event almost a year ago. We believe both of those businesses will be $100 million businesses in the course of the next 2 years. We've got every single quarter, proof points that we're gaining momentum there. ESM grew 67% in the quarter. Our ITAM products that were attached in over 1/3 of our larger deals. Often, ITAM is a quick follow-on after an ITSM land. So it's a good upsell once you've got the customer in the door. And really with where we're going with our IT operations, that intersection between ITAM and ops is really important because to do -- to respond to incidents as well, you need to understand the asset base.

So we think that those are actually self-reinforcing. And as we get more momentum with FireHydrant, we integrate that product. We put more and more focus behind that as well. That's going to help even more that ITAM business. ITAM actually accelerated this past quarter. I think we had our best quarter ever for asset management. We launched the new --the cloud-based version of Asset Management last quarter. And we already are tapping into a whole slew of customers that otherwise would not have bought an on-prem product.

So the hypothesis there was that there were lots of customers, some of which were smaller than the typical Device42 customer that would be interested in the product. That turned out to be true. We beat our internal goals by wide margin. So we think there's a long way to go. And if we look at the penetration of the existing base for ESM in particular, we're really, really early in driving that business overall. So we're going to continue to stay focused there. We're going to continue to invest in capability for teams outside of IT.

A lot of our focus has been in HR capabilities, things like onboarding and offboarding, workflows out of the box. We're facing more on teams like facilities, teams like finance. Those teams also have lots of internal employee service needs, and we can build capabilities out of the box that are agentic that expand and allow us to tap into another team. So those are huge areas for us. We're very excited about both.

Tamjid Md Moinuddin Chowdhury
Guggenheim Securities, LLC, Research Division

And then 1 quick follow-up. Constant currency NDR has been stable sequentially at about 105%. While it seems like Freddy AI Copilot attach rate is strong. I think you mentioned over 71% of new enterprise deals. While we understand that it doesn't directly -- the attach rate doesn't directly flow to NDR. It likely reflects broader product demand that should also drive Freddy expansion into your existing base? Are you seeing that translate into upsell activity yet? And when should we expect it to show up in NDR?

Tyler R. Sloat
CFO & COO

Yes. So you're right, the NDR has been pretty consistent from a constant currency basis. And slightly improving in some cases. The Freddy attach rates for new deals, as you indicated, but absolutely, it is one of our strong expansion motions. Now it is harder to get existing customers to adopt Copilot because they have existing way to work.

But we have kind of prescriptive sales plays around it. And we do expect that to continue to be one of our larger expansion motions going forward. I can't say when the impact to NDR is there, but as a percentage of expansion, it is actually increasing.

Operator

Your next question comes from the line of Taylor McGinnis with UBS.

Taylor Anne McGinnis
UBS Investment Bank, Research Division

I'd love to ask on the EX business. So a slight decel in 2Q to 24% constant currency. So Tyler, could you just maybe talk about, as we look into the back half and the comfort in sustaining mid-20s growth, what some of the drivers are there? Are there any incremental growth opportunities that could potentially lead to an acceleration in that business? Maybe you could just help us unpack the confidence there?

Tyler R. Sloat
CFO & COO

Taylor. So 25% in Q1, 24% constant currency. This is up from 22% at the end of the year. We had a really good quarter, and EX continues to be the driver of growth. And so I just think that the 25% to 24%, there's a little bit of noise there, but it's nothing outside of what we expected and we're very confident still on mid-20s growth.

As Dennis has mentioned, like we're seeing larger and larger deals, and the pipeline is reflecting that. That's on the new business side. On the expansion side, we just talked about the attach rates on kind of ITAM and ESM where about 20% of seats are ESM and about 1/3 of the lands include ITAM, but that means still 2/3 still have Device42 as the potential to sell. We just kind of went live last quarter with what we call Advanced ITAM Cloud, which is Device42 on the cloud, which really opens up the potential for our entire existing base that wasn't using asset management previously.

FireHydrant is a brand new product for us. We haven't talked about when the full integration is going to be done, but we have been selling it. And one of our biggest lands in Q2 was a FireHydrant stand-alone. And that's just going to open up opportunities to kind of cross-sell ITSM, ESM and others into that account, but also as that muscle build is just another way that we can go land with another EX product with kind of a different buying segment. So yes, we're confident on the mid-20s growth, and EX continues to be a driver of that growth for the whole company.

Dennis M. Woodside
CEO, President & Director

And just to add something to that. Look, if the market itself, the market that we're focused on, that mid-market, lower end of the enterprise, that's about 60% of the overall market, and it's still fairly fragmented. No single competitor has more than 20% share. So that's a big opportunity for us. we're seeing the momentum.

Obviously, Gartner validates, we've got the product. We've got the customers saying good things about us, all that's good. And now we have this platform where there's multiple ways to win, right? So we land with ITSM, expand with -- into ITAM, into ops, in the ESM and AI. All those things are really building momentum. So you're seeing a lot of that come together. And I think all of that gives a lot of optimism to the team here about the second half.

Taylor Anne McGinnis
UBS Investment Bank, Research Division

Perfect. And then my next question is one, just to look at the performance in the quarter. There was a nice 1 point acceleration on a constant currency basis for revenue. So maybe you could just unpack what drove to the upside there? And then secondly, as we look into the back half, the guide is really strong on a revenue basis. So any bigger drivers of that in the second half compared to what you guys saw in the first half?

Dennis M. Woodside
CEO, President & Director

Yes. Let me start and then, Tyler jump in. I would just echo what I said, which is we just see a lot of momentum on the EX side given that the product strategy, the go-to-market strategy are all kind of coming together. We also have confidence in that. We've cracked the code on pipeline. I mean, a year ago, we were a little bit more challenged, I would say, around pipeline.

But we entered the year and first -- right out of the gate first quarter, second quarter did really well in generating new pipeline. So that pipeline is maturing and is kind of coming due, so to speak, in the second half of the year. So that gives us confidence. And this was the second order actually in a row that we accelerated revenue slightly. I think we were -- went from 13% to 14%, 14% to 15%. So yes, so far so good this year, and we're optimistic about back half and Tyler maybe talk about the [indiscernible] .

Tyler R. Sloat
CFO & COO

Yes, I think just about everything that Dennis just said, Taylor. We talked about in the beginning of the year that kind of record pipe building, but it's really -- again, a lot of the momentum we're seeing on the

EX side in that kind of what we call agile enterprise and the high mid-market. And we're quickly becoming the product of choice for those companies, and it's just starting to build on its own.

Operator

Your next question comes from the line of Patrick Schulz with Baird.

Patrick A. Schulz
Robert W. Baird & Co. Incorporated, Research Division

Maybe could you just touch on the linearity of demand throughout the quarter? How does the demand environment and pipeline build compare versus last quarter? Are you seeing any impact on sales cycles as customers maybe cut back and reassess where their AI investments are going?

Dennis M. Woodside
CEO, President & Director

No, we're not seeing any impact on sales cycles or decisions or anything like that in terms of AI. Like I know you're referring to some things that happened, I guess, with some other vendors, but that's -- we're not seeing that at all. I would say the linearity is pretty similar to what we've been seeing in prior quarters where as we go up market more of the -- more of the deals going in at the back half of the quarter, but nothing unusual.

And I wouldn't say that the buying cycles are unusual, considering that we -- again, we're moving upmarket. AI actually is more of a motivator for people to think about their vendor and most of our business is coming from another vendor. It could be a small player, but often it's a very large player.

So they are faced with a decision often as to, okay, what are we going to do about AI, we're going to migrate to the incumbent vendors platform. Sometimes that requires an upgrade in plan. It certainly requires cost. So it often provokes a discussion as to, well, maybe we should go to market and see what else is out there. And again, a lot of times, you talk about that Seagate, 14-year customer or a competitor, 14 years ago we didn't exist.

So they're going out to market now and they're seeing -- they're calling Gartner, they're calling their peers and they're hearing about us, and that's how we're getting in the mix. So I think that, that's driving more of our business than anything else is that customers are saying we need to do something on AI, that's leading to a discussion, do we stick with the incumbent, and that's leading to us to get a shot at winning. So all that's been pretty good for us.

Patrick A. Schulz
Robert W. Baird & Co. Incorporated, Research Division

Okay. Yes, yes. That's very helpful. And I appreciate the commentary you guys provided around ITAM this quarter. I wanted to dive a little bit deeper there and maybe better understand how important it is that an enterprise-grade ITAM solution as you move further out market? Did you expect that ITAM and Device42 will become a leading driver of new logos? Or is it still more of a cross-sell opportunity? And then just as we think about Device42, maybe just give an update on the cloud transition and how much of that business is still on-prem license?

Dennis M. Woodside
CEO, President & Director

You want to take the second part, Tyler? I'll take the first.

Tyler R. Sloat
CFO & COO

Yes. So I think the -- for the on-prem business is part of the reason we're still calling out some of that legacy churn. The migration of those customers, there is no actual purposeful migration. We're not forcing customers to migrate over to the cloud. In fact, there's a lot of customers who want an on-prem version, and we're going to continue to sell that for the foreseeable future. The new ITAM cloud version, which is advanced ITAM, is essentially at parity with the on-prem version. That was the whole goal and point. And that's now available to the existing installed base and any new customer who doesn't want the on-prem. So we kind of offer both now.

Dennis M. Woodside
CEO, President & Director

So on the first part of the question, customers aren't buying just an ITSM. They're buying the full capability to power their IT department, especially upmarket. And asset management, ESM, ops, all that -- that's -- those are table stakes. You have to have that. And if you look at our larger deals, typically, it's multiple components right out of the box. And so I think it's less about -- is it something that you land with and helps you compete? It's absolutely essential for us to continue to move up market. Customers are coming off products that have those capabilities, and they expect that. And that's why we've invested in those areas to build a complete solution, a complete platform. And again, you see it in the numbers, it's working.

Operator

Your next question comes from the line of Scott Berg with Needham & Company.

Scott Randolph Berg
Needham & Company, LLC, Research Division

Nice quarter. Apologies I did jump on late, I hope this wasn't asked at least. But I attended the Refresh event in May. And one of the things I thought was interesting is some of the commentary around partners and those individuals that are involved in your partner program and how it's maturing really evolving into more of a long-term account ownership kind of strategy instead of just something that was more transactional in nature. I guess as that structure continues to evolve, do you see that driving, I guess, better retention, better expansion opportunities with your customers if those partners do maintain that ownership more? Or should we see some other benefit to come from that program?

Dennis M. Woodside
CEO, President & Director

So I would say it's both new business, retention and expansion, those things benefit when we have a partner. We know when we have partners involved, our retention rates are higher, for sure. We know when we have partners involved, the expansion happens faster. And we know in the sales cycle, when we have a partner involved, the close rates are higher. So all of those things are really important for us. We've been purposeful about cultivating a select group of partners that can help us and have the expertise to actually manage our business, which is a little different than some of our competitors in terms of what's required on an ongoing basis, what's required for migration.

And a lot of our focus has been fewer but higher leverage partners, especially on the EX side. Partners like Unisys, which we talked about in the past, CGI, which we've talked about in the past. So those are -- that's where we're really focused in making sure that those partners that are really investing in the capabilities to serve our customers well, are continuously kept up to speed on our products and that we're collaborating in those customer situations, both to help them grow their business and they can help us grow our business.

Scott Randolph Berg
Needham & Company, LLC, Research Division

That's helpful, Dennis. And then from a follow-up perspective, the partners that we had a chance to speak with seem to be very positive. I don't know, what you guys are doing product-wise and win rate wise, you certainly are making an impact up there. I guess, how do you think about that partner impact on that business today? And where should that be if you look out maybe 12 or 24 months as you lean into this more? Is this more than 50% of your business, 75% of maybe some of your leads and interactions? Or is it maybe having a more muted impact longer term?

Dennis M. Woodside

CEO, President & Director

I think It will continue to grow as we continue to grow up market because you get into these larger companies where they do have -- they're coming off of a deployment that's been around for a while, often, their partner understands that deployment quite well if they have an existing partner or they need somebody to help them move off and configure the new system in the way that they want it. That does take work. And that does take expertise.

So -- and then they want that system to continue grow with them over time. So I think that does create a greater opportunity for partners. It's hard to say whether that's 50%, 60% down the road. I think right now, about 40% of our business is partner influence in some way, shape or form. But we're investing there. We have a new -- relatively newer head of our partner team, who's done a great job of building that -- starting to kind of build out that I would say, next level of partner program, and we're going to continue to invest there.

Operator

Your next question comes from the line of Matt VanVliet with Cantor.

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

I guess, first, if we think about the magnitude of either expansion or just deal size growth when Freddy is attached, where do those sit today and now with a couple of more products and more along the way, what should we expect over the next couple of years in terms of deal size growth just from adding those extra capabilities through Freddy?

Dennis M. Woodside
CEO, President & Director

Yes, that's a great question. I think -- in terms of the 1 metric you can look -- we look at is ARPA, ARPA growth. That's been double digit for some time now. We look at the attach rate on new deals internally. We look at attach rate overall. We have over 7,000 accounts paying for a SKU for AI today. As AI infuses itself across the platform the pricing model is going to continue to evolve.

So today,. there are elements of our AI capabilities that are embedded into our higher-priced plans like Insights is available for our enterprise plans. There are elements that are add-ons. So copilot today is an add-on. And then there are elements that are consumption-based. AI agent is a consumption-based product. There are elements that we've introduced that we haven't yet monetized. So for EX we introduced AI Agent Studio in May, and we've chosen not to monetize it because we want to get a lot of customers on it, using it. We want to keep building the capabilities and at some point in the fall, we will monetize it on a usage basis.

And so I think the models are going to continue to evolve. What's most important for us is, is it helping us win. That's what we really look at. And in every competitive situation, whether it's an upsell just retaining the customers that you have or expanding, AI is essential to the RFP. It's not the only thing that you need in order to win. You need a lot more than that. But you absolutely need to have AI game. And that's why we've been investing so much in AI. And these bigger customers would never come us if they didn't both believe in what we delivered today and believe in where the road map is going. That's super important for them.

So yes, I think it's hard to say like, okay, how much is going to be AI-driven. We have a lot of confidence in the overall business. We have a lot of -- we put the number out there, $1.4 billion ARR in the next couple of years. That's up from where we thought we would be a year ago. We wouldn't have done that if we did think we had confidence. We see it in the pipeline numbers. We see it in these large customers who are super happy with us. So all of that gives us confidence that the plan is working, and AI is an important part of it, but there's a lot more than just AI.

Matthew David VanVliet
Cantor Fitzgerald & Co., Research Division

Very helpful. And then I guess as you look at maybe the CX business, you talked about a lot more efficiencies there and consolidating some of the organization around India. Curious how much internal usage of AI is driving that efficiency? And how much more can be unlocked as that becomes maybe a little bit more of a on cruise control of running that business and having a little bit more customer-led growth.

Dennis M. Woodside
CEO, President & Director

Yes. So it sounds like 2 questions really, it's kind of our internal use, but also the CX business. CX business, the big change we made this quarter at the end of last quarter is we consolidated the teams that are driving CX into India. Most of that business is SMB. Most of that business was inbound. So most of the team was already there. But now there's a single go-to-market team that is driving that business.

And that's going to create a lot more focus around retention, in particular, around ensuring that we're focused on the right customers in the past, any customer was a good enough customer and that results in us acquiring a lot of smaller customers that churn. We're not doing that anymore. So the new business acquisition motion is focused very much on, call it, the higher end of SMB and mid-market. And we would expect, over time, that will help our retention rates.

We've made a big investment in the CX product in moving to our new Freshdesk Omni. We have multiple products in the past. Now a customer can get onto 1 product and seamlessly migrate -- or sorry, seamlessly upgrade from a e-mail-based ticketing experience to one involving chat and conversational and voice and one involving AI. That's important for upsell and for retention as well.

So we're optimistic about the fact that we've got 90% of our customers now on that new platform, we've got the go-to-market motion much more focused that we're going to be able to get some goodness out of that CX business. And then from an internal standpoint, AI has been suffused across every part of our business. Our entire product development life cycle has changed. We now have designers who can work in Figma, create a product in Figma Make, push it directly to code, we built the hooks between our production environment in Figma, so the code comes out, it's compliant with our internal coding requirements. The process for doing QA is highly automated with AI now. And so that's resulted in a meaningfully shorter cycle times, about 30% faster we're shipping on basically a 2-week cycle now, which we were not doing before for AI products in particular. It's changed our support business as well. We've implemented our AI Email agent internally to handle the questions that we get from our own customers about billing, and we saw about 30% of those questions were completely handled through AI in -- when we turned it on.

So I think it's transforming many businesses. It's certainly transforming us. It's helped us drive our overall profitability of the business. GAAP profitable this quarter. That's ahead of where we thought we would be. Cash flow looks good. And so all of that, I think, is good for us. And I make sure that my team is using AI and everything we do, whether it's preparing for this call or doing a presentation to the company, AI's front and center. So I think it's just a part of how we're doing business now. It's maybe a little less dramatic than it was a year ago because it now is how people are used to working.

Operator

Your next question comes from the line of Alex Zukin with Wolfe Research, LLC.

Aleksandr J. Zukin
Wolfe Research, LLC

Most of mine have been asked, but I want to double down on Taylor's question because I actually think it's really important. If you look at the net new ARR growth for the EX business, in the first half. It looks like it's about 14%. I think the guide for the second half implies 16% -- or sorry, 18%. So if I think about -- Tyler, you mentioned some noise on why net new ARR for that business was down year-over-year, but I just want to better understand that a little bit? And like what are you seeing in the pipeline to give you the confidence to guide for acceleration of net new ARR in that business for the second half?

Tyler R. Sloat

CFO & COO

So we -- so Alex, thanks for the question. So back to what I said to Taylor, right, like she was asking about, hey, '25 versus '24, and I said, hey, there's -- we're really confident on mid-20s growth for EX. And we just talked about that at our Refresh in April there's a little bit of nuances like in terms of quarter-to-quarter, but the EX business is doing really, really well. And we wouldn't keep repeating that if we didn't think we had that strength.

I think there's a whole end of avenues to grow outside of new logo, which we talked about the pipes that were already growing, that we -- coming into Q1, we said the strongest pipe kind of ever. but really the expansion products that we're bringing to fruition. Again, FireHydrant, brand new on the ITOM side and Device42 advanced cloud version now being available. So we're very confident what we've seen in the first half of the year, and we expect to continue to see that through the back half of the year. We -- as a whole, we had already talked about what we're seen for the backside. We just rolled through our $4 million beat, and that already encompassed a $2 million FX headwind. So it would have been a $6 million beat for the back half of the year if we didn't see that FX. So again, we're super confident EX is still the driver of growth. CX is stable at 4% right now.

Dennis M. Woodside
CEO, President & Director

Yes. Just to emphasize, like this is a beat and raise quarter. I know we didn't emphasize that, but you count that FX headwind, and we rolled that beat in and we raised by an additional $2 million.

Aleksandr J. Zukin
Wolfe Research, LLC

Got it. Helpful. And then the other thing that we noticed is -- and again, I think you talked about this, but stock-based comp 16% of revenues down from 19% in Q1. What's driving that strong decline? And how do we think about the outlook for the rest of the year and really beyond and any changes that you're making there, it would be good to unpack.

Tyler R. Sloat
CFO & COO

I'll start with, and Dennis can add to it. So I think this is not something new for us, right? We've been talking for a couple of years now about how we were going to be looking at our total P&L from a GAAP perspective and the biggest component of that -- the hurdle we had to get to, to get to GAAP profitability, which we hit this quarter, which is a couple of quarters earlier than we expected was going to be SBC.

Some of the bigger drops in SBC is that we've kind of -- we've gone through all of the IPO grants now and like we've taken off that tail. And so really, what we're flowing through on the SBC is like our ongoing kind of new grants and focal. And that's the place that we've had added a lot of the discipline under Dennis' leadership, and we're going to continue to do that. We're constantly looking -- working with our total benefits folks, making sure that we are being, number 1, really competitive, so we can bring on the best but number two, using equity really prudently as we go forward. At the same time, we're just looking at total equity, we want everybody focused on free cash flow per share. And that's kind of the North Star metric that we talked about. And in the call, we talked about how we've reduced that considerably in terms of fully diluted shares since we've gone public. But Dennis, if you want to...

Dennis M. Woodside
CEO, President & Director

Yes, I just -- look, I'd pay attention to it, it's important. I think it's important internally that we reward performance with equity but at the same time, in the past, we've been, I would say, a little bit broad in how we thought about it. And we've put in place basically performance management process to make sure that we're using that. We're thinking of that equity as a really scarce resource, and we're making sure that the people have the biggest impact, see the biggest grants.

And that, by definition, is going to create a more, I would say, a more prudent approach to how we're managing things. And Tyler shared where we think we'll be in the next couple of years, and we take that very seriously, and that's what we're going to do. So I think it's a continuation of a trend that we've put in place for a while now.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Dennis Woodside's CEO, for closing remarks.

Dennis M. Woodside
CEO, President & Director

All right. I just want to thank everybody for joining the call today. And just to emphasize, Q2 overall for us, reinforced every 1 of the 5 priorities that we laid out of a Refresh. We demonstrated that EX first momentum that category leadership for the mid-market and the agile enterprise. I think we showed that AI is an expanding tailwind to our growth. And that we've been disciplined around profitability and how we're managing capital. So thanks, everybody. Look forward to speaking to everybody next quarter. Bye.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.