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Freshworks Inc.

Third Quarter 2026 Earnings Conference Call Transcript

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Prepared Remarks

Operator

Hello everyone, thank you for joining us and welcome to the Freshworks Third 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' Third 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 third quarter 2026 performance and our financial outlook for our fourth 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, uncertainty 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.

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 is the AI-powered, unified service operations platform for the modern, agile enterprise.

Our strategy showed up in Q3 results- meeting or exceeding on both top and bottom line metrics and delivering record free cash flow. We moved further up-market, won multi-product displacements, and executed profitably.

Revenue was $245.4 million, up 14% year over year, at the high end of our estimates. Non-GAAP operating income was $73.2 million, a 30% margin and Non-GAAP EPS was $0.22, well above our estimates. GAAP net income was $18.3 million with GAAP EPS of $0.07, reflecting our second straight profitable quarter, and ninth straight quarter at Rule of 40 or better.

Adjusted free cash flow was $73.9 million, a 30% margin. Adjusted free cash flow per share grew 40% over Q3 last year and we are now expecting to exceed $0.94 of adjusted free cash flow per share for the year. This is ahead of our 20% free cash flow per share growth target.

We’re executing on our EX strategy to continuously expand and elevate our intelligent platform centered around rich operational data. In October, we acquired two companies, Torii and Robusta, adding critical AI capabilities that further strengthen our robust ITOM and ITAM offerings.

AI is taking on more of the work in IT. That means IT leaders need to see, govern, and pay for the technology and access behind it. Torii gives them visibility into software and AI spend. Robusta adds intelligence to incident investigation and resolution. It’s great to welcome these teams to Freshworks.

When combined with our existing ITAM solution and ITOM solution (FireHydrant), we can tell an enterprise what it runs, what it costs, when something breaks, and how to fix it. That moves us from visibility, to intelligence, to action and to proactive operations.This aligns with a core belief our customers count on: trust they can see. That matters today more than ever, because governed operational data is the foundation AI runs on.

Now to EX results, where our shift upmarket is clear. In Q3, EX ARR grew 22% in constant currency to $588 million, or 59% of total ARR. Customers above $100,000 in ARR grew 26% and now make up about 41% of total ARR. ARPA for new EX customers grew 35%. And we closed yet another multi-product, seven-figure EX deal this year.

When we ask customers why they chose Freshservice, we repeatedly hear these reasons: depth and scale on day one, and ease and speed as an architecture.

Customers are not buying a point solution. They are standardizing on one platform for service operations, across IT, HR, Finance, and other teams, on one data model.

That gives us the power of an enterprise system of record with the agility of modern software. It sets us apart from both legacy incumbents and startup challengers.

This momentum is reflected in our performance, as multi-product adoption continues to accelerate:

- New EX deals with multiple products grew over 35% year over year. Corresponding ARR increased more than 50%.
- Two thirds of our top 50 new EX deals included ITAM, an improvement from Q2. We are in our second quarter of ramping up our cloud based ITAM product, now called Freshservice ITAM. Since the launch in Q2, we've added over 400 new customers.
- ESM new business rose over 35% and was in over 40% of large new lands.
- FireHydrant is further deepening our platform presence across IT and engineering incident response. Our cross-sell strategy is yielding results, including a six-figure expansion with a legacy FireHydrant customer this quarter.

These products actively reinforce one another, creating a powerful land-and-expand flywheel. ITSM paired with ITAM drives faster ticket resolution through instant asset visibility, while adding ITOM shifts IT teams from reactive firefighting to proactive prevention.

We introduced enterprise-grade ITAM product enhancements this quarter—including **Data Center Infrastructure Management** and **real-time power utilization tracking**. This converts fragmented physical and cloud infrastructure data into actionable service intelligence, unlocking immediate cost efficiencies for our customers.

Most importantly, every capability—from ITAM and ESM to ITOM, Torii, and Robusta—runs on a single data model. That eliminates integration friction. When an enterprise wants to expand, they don't need a multi-month consulting project; they simply switch it on.

One of North America's largest commercial vehicle dealership networks recently selected Freshworks ending an incumbent relationship of nearly a decade. Freshservice was selected for its unified ITSM and ITAM platform. This is yet another example of a customer turning away from the operational drag and the complexity tax of legacy platforms in favor of Freshworks' intuitive, easy-to-deploy solution and Freddy Copilot AI capabilities across its IT and business teams.

Freshservice is built for configuration, not coding, with continuous updates rather than disruptive, multi-year upgrades. That allows customers to see value in weeks, not years.

Partners are a major driver of that speed to value. They were attached to 44% of EX bookings and 53% of new business, and sourced 35% of new deals. Our largest new-business deal, a North American wholesale distributor, was sourced and led by CDW. Year to date, CDW has nearly doubled its business with us and Softchoice more than doubled theirs.

Global SIs are driving larger IT transformation programs. One example is **a global professional information, software and services provider** who selected Freshservice for its technical asset discovery, robust security capabilities and flexible commercial model. Working alongside our deal partner, we are helping the customer discover and manage its global asset footprint with Device42, displacing their incumbent legacy platform.

Bigger customers, larger deals, and incumbent displacements are the direct result of an architecture built for speed.

Now let's talk about how AI is the multiplier for speed to value for customers.

Domain-specific AI is now a core requirement in vendor selection, and a primary reason customers choose Freshworks. Freddy is built for specific jobs to be done, grounded in a decade of service context.

One of the largest HSA custodians in the U.S. recently chose Freshservice to overhaul high-volume service delivery with domain-specific AI. Freshservice with Freddy Copilot and intelligent self-service was deployed across their IT and HR operations.

A global digital sports platform and leader in licensed sports merchandise had a CEO mandate to lower total cost of ownership and accelerate operational AI. They selected Freshservice with Freddy Copilot after an end-to-end AI demonstration proved its rapid time to value ahead of a January 2027 go live date.

Tower Federal Credit Union in Maryland, with $5 billion in assets and more than 220,000 members, selected Freshservice for its intuitive platform. They deployed Freddy Copilot to automate routine service tasks alongside Device42 for comprehensive IT asset discovery, thereby streamlining enterprise workflows while ensuring continuous operational visibility.

Amwins, the largest wholesale distributor of specialty insurance products in the US, selected Freshservice for its rapid workflow configuration, predictable long-term costs, and reliable platform governance. Freshservice and Freddy Copilot are being deployed across Amwins global organization.

The outcomes for customers deploying Freddy Copilot speak for themselves:

- Teams using Freddy Copilot handle 50% more tickets.
- Freddy AI Agent deflects 50% of inquiries on average, and up to 80% in mature deployments.
- And in Q3 Active Copilot agents doubled year over year.

Customers choose us for the platform, the speed, and the AI, and they expand at a higher rate. In fact, EX customers who also purchase AI have a net dollar retention rate of greater than 115%.

Underpinning our product roadmap is choice. Our new Model Context Protocol (MCP) Gateway embodies this. It seamlessly integrates Freshservice data into the AI tools teams already rely on, while enabling Freddy AI Agents to operate securely across external systems through a governed gateway. For customers, that means AI in the tools their teams already use, with their service data staying governed in one place. Innovations like Freddy AI Studio and Email AI Agent further empower customers to expand capabilities within their existing environments.

Turning to our CX performance, CX ARR was $404 million, up 4% as reported and on a constant currency basis. We are demonstrating durable growth in CX and have improved the profitability of this business significantly in the last 18 months. The Omni platform transition and consolidation of our sales and support teams in India has made CX more focused and efficient, and gives us a credible path to steady, profitable growth.

Freshdesk Omni is resonating with our mid-market customers. Win rates for Omni new business are 15% higher than our legacy platform, with larger ARR per customer. AI adoption is strengthening, with CX AI Agent sessions up more than 3x and conversations up more than 4x year over year.

For example, a fast-growing UK software and embedded-payments group recently chose Freshdesk Omni with Freddy Copilot to modernize its customer support operations, provide unified omnichannel support and AI-driven resolution across its business.

To pull it together: we are an EX-first company, moving up-market with larger customers and larger deals. Our unified platform– one data model across IT, HR and Finance – is displacing entrenched incumbents, and AI adoption is driving high-margin expansion.

Finally, in October, we crossed **$1 billion in annual recurring revenue**, the milestone we committed to by year-end. That doesn't happen without our customers and our employees, some of whom were here when Freshworks became the first Indian SaaS company to list on Nasdaq. It's one of many milestones to come.

I'll now turn it over to Tyler.

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

Thanks, Dennis, and thanks, everyone, for joining the call today.

We had a strong third quarter: our eighth consecutive quarter exceeding revenue expectations and our second consecutive quarter of GAAP net income. We outperformed our estimates for non-GAAP operating margin and free cash flow, both of which are accelerating as we enter the end of the year. At the same time, we have been executing a significant amount of change internally, aligning with our highest growth opportunities and implementing operational efficiencies. At the beginning of Q3 we reorganized our go to market to focus all of our Field in-geography teams to be fully dedicated to our EX business and we moved all of our CX go to market efforts to India.

For our call today, I'll cover the Q3 2026 financial results, provide context on key metrics, and close with our updated outlook for Q4 and the full year 2026. As a reminder, most of my discussion will focus on non-GAAP financial results, and I will provide comparisons on both an as-reported and constant currency basis.

Starting with the income statement. Total revenue reached 245.4 million dollars in Q3, up 14% year-over-year as reported and 14% on a constant currency basis, at the high end of our estimates range. Professional services revenue was approximately 2.7 million dollars.

EX continues to be our primary growth engine. EX ARR ended Q3 at $588 million dollars, growing 22% year-over-year on an as reported and constant currency basis. We believe EX will continue to be a mid-twenties grower, as we scale the multi-product platform, ramp cloud ITAM, introduce ITOM, and continue to make AI a key differentiator. As Dennis mentioned, we are already seeing the benefits of our platform offering with the traction of Freshservice ITAM, our newly launched cloud ITAM offering. As a result, we are also seeing fewer purchases of our Device 42 on prem term license product and expect this to continue in line with our strategy. As this transition to the cloud ITAM offering happens, we do expect to see less upfront term license revenue going forward.

The underlying shift up-market is strong. Customers above $100,000 dollars grew 26% in constant currency and now represent about 41% of ARR. As Dennis mentioned, the shift upmarket is showing up in our results as we closed our second seven-figure deal in Q3, and ARPA for new EX customers was up 35% year-over-year. We also closed the highest amount of greater than $100K new logo lands in EX then ever before. Looking ahead, we now expect EX ARR to exceed $625 million dollars exiting 2026.

Turning to our CX business. CX ARR ended Q3 at $404 million dollars, growing 4% year-over-year as reported and on a constant currency basis, tracking at or above our full-year expectation. This reflects our deliberate plan to run CX for profitability and durable growth, and the Freshdesk Omni platform is demonstrating strong market fit for our mid-market ICP. We are also seeing increased usage of CX AI Agent studio with over $2.5M dollars in new ARR being added in Q3. This was across a broad base of customers, in fact, the number of customers purchasing session packs for the CX AI Agent Studio increased over 50% quarter over quarter. As a reminder, session packs are purchased as customers experience increased use of the AI agent product. For Q4 and full year 2026, we continue to expect similar CX ARR growth rates.

Moving to margins. Q3 non-GAAP gross margin of 87% remained consistent with prior quarters. Non-GAAP operating income was 73.2 million dollars, about 12 million dollars above the high end of our estimates range. Non-GAAP operating margin was 30%, over 6 points higher sequentially and 9 points higher than a year ago.

This reflects continued top-line leverage and the benefit of the restructuring actions we announced earlier this year. Our first use of that operating leverage remains investment in EX sales capacity and AI R&D, and we will continue to invest to support the growth opportunities ahead in EX.

We again achieved GAAP net income this quarter. Q3 GAAP net income was 18.3 million dollars, up from 3.2 million dollars last quarter, with GAAP EPS of $0.07 cents and non-GAAP EPS of $0.22 cents.

Turning to operating metrics. Excluding legacy Device42 customers, net dollar retention was 106% on a constant currency basis, above our estimate of approximately 105%. Within this, EX NDR excluding

legacy D42 customers was over 109%. Including Device42, net dollar retention was 104% as reported and 105% on a constant currency basis.

Looking ahead, we expect total NDR excluding legacy D42 customers to be approximately 105% on a constant currency basis in Q4.

Moving on to customer cohorts. Both of our large customer cohorts sustained strong growth sequentially. Customers contributing more than $100,000 dollars in ARR grew 25% as reported and 26% on a constant currency basis, consistent with Q2. These customers represent approximately 41% of total ARR.

Customers contributing more than $50,000 dollars in ARR grew 18% year-over-year as reported and on a constant currency basis, compared to 18% as reported and 19% on a constant currency basis in Q2, and now represent over 58% of our total ARR. This reflects the sustained up-market shift in our business and our focus on mid-market and agile enterprise customers with a multi-product EX motion.

Now on to billings, balance sheet, and cash. Calculated billings reached 249.5 million dollars in Q3, growing 11% year-over-year as reported and 12% on a constant currency basis. Looking ahead, we continue to expect Q4 and full year billings growth to be in line with revenue growth.

Our focus on operational excellence continues to compound capital efficiency. Adjusted free cash flow was 73.9 million dollars in Q3, above our estimates. Adjusted free cash flow margin was approximately 30%, up from 24% last quarter, and adjusted free cash flow per share was $0.28 cents. As Dennis highlighted, we are now on track to **exceed** $0.94 cents of adjusted free cash flow per share this year, ahead of our 20% free cash flow per share growth target.

Our capital allocation framework is to invest in high-return EX growth first, and return excess capital to shareholders second. In Q3 we repurchased approximately 2.7 million shares for 27 million dollars, buying opportunistically. Year-to-date we have deployed approximately 232 million dollars toward our stock repurchase program and reduced shares outstanding by over 7%. We ended Q3 with approximately 293 million fully diluted shares and approximately 262 million basic shares outstanding.

We also continue to be opportunistic with tuck-in acquisitions that add talent, technology and TAM expansion to our EX platform. Towards this, as Dennis highlighted, we acquired both Torii and Robusta in October.

Cash and investments ended Q3 at 697 million dollars with no debt, giving us ample capacity to continue our repurchase program while prioritizing investment in future growth.

Now onto our forward-looking estimates. Our non-GAAP net income projections for 2026 assume a tax rate of 24%. For the fourth quarter of 2026, we expect:

- Revenue of $253.5 million to $254.5 million dollars, growing approximately 14% year over year as reported, or 14% to 15% in constant currency.
- Non-GAAP income from operations in the range of 68 million dollars to 70 million dollars.
- Non-GAAP net income per share of approximately $0.21 cents, assuming weighted average shares outstanding of approximately 266.0 million shares.

For the full year 2026, we now expect:

- Revenue of $965.0 million to $966.0 million dollars, growing approximately 15% year over year, or 14% to 15% in constant currency. This includes an approximately $2 million dollar FX headwind relative to the rates assumed in our initial guidance at the beginning of the year.
- Non-GAAP income from operations in the range of 238 million dollars to 240 million dollars.
- Non-GAAP income per share of approximately $0.71 cents, assuming weighted average shares outstanding of approximately 272.3 million shares.

- Approximately 265 million dollars of adjusted free cash flow, and adjusted free cash flow margin target of over 27% for the full year 2026.
- **And we are on track to exceed our full-year adjusted free cash flow per share target of $0.94 cents .**

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 October 31, 2026 and do not take into account any impact from currency moves.

In closing, our strong third-quarter performance across both top and bottom-line metrics reinforces our confidence in our 2026 financial and operational roadmap. Looking to the remainder of the year, our updated outlook reflects raised revenue, operating margin, and free cash flow per share expectations compared to our outlook at the beginning of the year —demonstrating strong momentum as we close out 2026.

Operator let's open up to Q&A.

Question-and-Answer Session

Operator

Your first question comes from the line of Billy Fitzsimmons with Piper Sandler.

William Fitzsimmons | *Piper Sandler & Co., Research Division*

Dennis and Tyler, can you comment on the mix of demand you're seeing across your different customer cohorts by size? As you talked about in the prepared remarks, you've been pushing upmarket for some time. And if I look at the customer metrics, the 50,000-plus customer adds were pretty consistent with what you've been doing. And it maybe looks like, call it, the mid-market customers between $5,000 and $50,000 were potentially down sequentially. Is that what you expected going into the quarter? And does that just reflect kind of where your targeting opportunity is?

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

Yes. Thanks for the question, Billy. The emphasis for us has absolutely been on moving upmarket. That's where the demand is, that's where we're seeing what I like to call the agile enterprise looking for an alternative to the larger historical incumbents and looking for an AI-enabled platform that extends beyond ITSM into ITAM, into operations management, into ESM, and that's what we have. So our emphasis in our field team, in particular, has very much been moving upmarket. That's why we're getting these big lands. We had our second $1 million land this quarter of the year, which is fantastic. We have multiple $200,000 to $500,000 lands, which is fantastic. We're seeing big expansions on the order of $0.5 million, which is fantastic. So a lot of the emphasis is very much on that upmarket motion. And that's where we're seeing the growth. I think our accounts over $100,000 grew 26% in the quarter, which is really leading us more and more upmarket. Those accounts expand at higher rates, the NDRs are better. And so that's been an intentional focus for us to move upmarket. At the same time, in the CX business -- and the number you referred to is blended across CX and EX. In the CX business, we're focused very much on the more profitable portion of SMB, whereas in the distant past, we would fish for anybody, any fish we could catch. Now we're very much focused on those that are going to retain with us longer, expand with us more. And so that's a slightly larger customer within the SMB segment. It's also being much more discerning with our marketing so we're attracting those customers that are going to have long-term value for us and where they're going to see long-term value from our products. So I think all of that contributes to the larger account mix moving up and seeing growth actually higher than the overall corporate growth in those larger accounts. And so that's an intentional output of our strategy.

William Fitzsimmons | *Piper Sandler & Co., Research Division*

And then if I could sneak in a second one, just on the margin side, pretty sizable upside here in operating margins relative to the guide. Can you just talk about where you're seeing the most efficiencies internally and then frame for us kind of how you're balancing the mix of growth versus profitability?

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

Billy, yes, we did really well on the efficiency side. Now if you recall, at the end of Q2, we made some structural changes to the business. A lot of it was go-to-market led, which I also mentioned on the call that we moved all of our go-to-market efforts for CX down to India, which does two things. One, it makes CX highly profitable, which we said we're going to run that business for profit. Second, it gets our entire field motion solely focused on EX. And that is what the strategy is going forward. We were able, at the same time, to continue to drive efficiencies, which we've been doing for the last couple of years. We rolled that beat through and raised it. And we -- the margin structure for Q4, we are still going to lean in specifically to two things. One, EX field sales. And so we're building that out, and that's all taken into account in the guide we made for Q4 as well as kind of AI engineering development.

Operator

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

Scott Randolph Berg | *Needham & Company, LLC, Research Division*

Really nice quarter here. Dennis, for my one question, I wanted to talk about partners, partner contribution. The CDW example you gave, I thought was interesting and encouraging given what seems to be probably $1 million land there if I put all the pieces in your commentary together properly. What -- I guess the question, though, is how do you think about partner contribution as you get into next year? Obviously, their contribution is growing. But longer term, on the EX business, should it be 50% of the business, 75% of the business? Just kind of how are you thinking about all those pieces over the next couple of years would be great.

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

Yes. So as we move upmarket, more and more of our deals are covered by a partner. And there's a couple of things going on. The first is that our platform story is really coming together nicely. So in the last quarter, 2/3 of our top 50 deals were both ITSM and ITAM. As we -- and this was the first quarter where we had ITAM fully integrated into the cloud. So all of the Device42 capabilities in the cloud. Any large account that we're going after, they are typically asking for both of those modules to start. As we integrate FireHydrant, we fully expect ITOM to be a part of that story as well. In fact, we're seeing that now. Now -- and then, of course, AI, where the AI capability continues to be built out across our platform. We announced Robusta, which is an AI ops company, very innovative company in Israel which is going to supplement what we're doing with FireHydrant to proactively identify issues before they actually are real issues, and the IT department can intervene over time, the AI can simply intervene. So all of that creates a much more rich, robust platform that allows us to go upmarket. And as you go upmarket, we're going to be getting into more and more sophisticated environments where a partner is absolutely critical. So I would expect -- when we look at like what are the top 50 customers, top 50 deals in the quarter, it's going to be 75% of those customers that are covered by a partner. And that's how we've been investing in our partner motion. We have a partner leader who's -- I want to say, 6 or 9 months in, who's really been investing in our relationships with the larger partners in our portfolio. We're focused on going deeper with fewer partners. I mentioned two of the partners that doubled their business with us over the last year, but there were actually at least five that I know of that doubled their business with us over the last year. And I think that, that's going to be just a more and more important part of our motion, both in sourcing deals, bringing us into new situations, but then helping us actually execute those implementations and then ensuring that the customers are set up properly, that they're happy, that they're successful. We also see an opportunity potentially in SMB for partners, which we're exploring where we're not doing a lot with partners in the lower end of the business, but we could. So I think you'll see more partners in how we grow and how we expand. It's critical for us to do that as we continue to drive profitability of the business

overall. Partners can help you do that as well. So I'm pretty excited about where we are, the progress that we've made, and particularly in that upmarket motion.

Operator

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

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

Dennis, I mean, you guys sound really good. And -- but this -- the beat this quarter was the skinniest you've had in a while. So I'm just wondering if you could talk us through what the -- I don't know what the right word is, but what the offset was this quarter?

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

Well, I think -- well, thanks for the compliment. So I think that we -- if you look at the beat, first of all, on cash flow and operating margin, it was a pretty meaningful beat. On revenue, it was skinnier than -- yes. So I mean, that's quite meaningful for us, right? We're at 30% free cash flow margin in the quarter. We're guiding to 27% for the full year. That is super important for us in the long run because that allows us to reinvest in the business or potentially reinvest in buybacks. And we're seeing that the acquisitions that we've made over the course of the last couple of years are paying off. I mean, the one that's the most obvious and very clear is Device42 with ITAM, but I think we're going to be saying the same thing in a year for FireHydrant. And so I think that's super important. We're not just focused on top line. We're balancing top line with bottom line. That is important for everybody to understand. We did make some meaningful changes in the quarter. We moved all of our servicing and selling for our CX business to India. We used to have reps in the field that were responsible for selling both EX and CX. We said, look, the opportunity for EX is so large, and we need you focused 100% on EX. We need to go deep in the product. The product is much more sophisticated than it was 2 or 3 years ago. You need to become expert in this, if you're not already. So focus there. So you're going to -- when you make those kinds of changes, you're going to create some moving of books and so forth. But when we look at the next quarter, we look at Q4, our pipeline looks fantastic. We've got all this momentum upmarket. So I think that we're just going to continue to execute against this balanced approach to growth, both top line and bottom line, while being efficient with our share count. And that's why we are focusing on this 20% growth in free cash flow per share as a really important metric for us because we are balancing both.

Operator

Your next question comes from the line of David Hynes with Canaccord Genuity.

Lucas Lincoln Morison | *Canaccord Genuity Corp., Research Division*

This is Luke on for DJ. So I know you're not guiding to next year yet, but it's obviously something people are speculating on now. Maybe just help us think through, what are the biggest puts and takes investors should be thinking about and considering when thinking about next year's growth and margin profile? And just the levers across the durability of EX growth, CX growth stability, just your AI monetization and then broader investment priorities behind the broader platform here?

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

I'll take that one. Yes, for EX and for CX, right, CX has been very durable. We've put up 4% growth again. The early signs for our Omni product are really strong. ARPA is there, continuing to increase, and we view that there's potential upside there, but we've been very -- pretty conservative in that. And what we said in the script here, we kind of expect it to kind of stay around the same growth rates.

On the EX, we still believe this is a mid-20s grower, and there's a ton of upside here. And the things that we know about the product is that when it becomes a multiproduct sale, which we're landing with that the attributes of those customers just look a lot better. Yet we still have so far to go in terms of our existing installed base, offering them, number one, our new kind of cloud ITAM offering, which just came out this year, as well as ITOM, which is FireHydrant, which will be fully integrated at the beginning of the year of 2027.

So we're really optimistic. We're going to get through this quarter. Dennis and I both mentioned the kind of go-to-market changes, and we're going to execute this quarter, and we'll update all the numbers for next year at the end of this quarter. We should note, from an operating margin perspective, we've been able to drive a lot of efficiencies, and we're going to continue to do that. Q1 always has a little bit more pressure from an operating margin than Q4. And that pressure comes usually because of two things. One, our annual focal process, which is our raises internally, that all hits on January 1, which also, you have to do a bunch of things for balance sheet items that caused some onetime hits to your P&L. And then secondarily, Q1 has fewer days of revenue. And so we talk about that every single year, so there will be a little bit pressure on the operating margin for Q1, but we're going to actually digest that and continue to run the business very, very efficiently.

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

Just to add one thing for next year that as we're planning the business, the emphasis that we've had internally among our sales teams is very much about landing new business. And you hear it in our call, right? We emphasize lands all the time. And internally, that's what we've gotten quite good at. As the platform gets more mature, as we bring in ITOM and integrate it fully into the Freshservice platform so it's a seamless experience for customers, easy to upgrade to, we're slightly shifting the emphasis to expansion and really driving that expansion motion. And if we look at our base now, we've got 20,000 Freshservice customers. We've done some rough math to say, well, if we simply took the products that we had now and fully sold them in, such that we -- every customer is buying products at the right level. That's more -- that's hundreds of millions of additional ARR, close to double our base. That's just from upselling into our existing base. So we've gotten very good at land. Next year, what we're focusing on is, okay, now we have to take that motion, we have to become amazing at expansion, at exposing our customers to all the products and offerings that we have. 70% of our customers today are just on 1 of those EX products, primarily ITSM. And so there's a huge opportunity in the base just to expand, and you'll hear us talking more and more about that next year.

Operator

Your next question comes from the line of Robert Oliver with Baird.

Robert Cooney Oliver | *Robert W. Baird & Co. Incorporated, Research Division*

Dennis, that was really helpful in response to that last question because that was going to be mine, which was around the kind of EX collective opportunity you're seeing to expand your largest accounts? And I guess maybe would add with the addition of FireHydrant and now having D42 in the cloud, I think you called out in the prepared remarks that D42 plus ITSM is already additive. But how does having that on a cloud version help accelerate that multiproduct expansion motion for your customers? And do you guys know where the bodies are buried within the customer base to be able to attack that? And then I had a quick follow-up for Tyler.

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

Yes. So thanks, Rob. So with advanced ITAM, the on-prem product was very well suited for a larger organization that had a mixed cloud on-prem model. But a lot of our customers are cloud-first, and they have very few on-prem assets, and they weren't going to bring an on-prem product into their estate. When we opened up advanced ITAM in the cloud to our customer base, we expected that we would get fewer than 100 customers in the first couple of quarters. We added 400 customers. And they're smaller, but there are easy expansions from Freshservice because it's literally a click of a button and upsell, and you experience the product, you experience the asset management product in Freshservice. The experience for the agent and the admin is completely seamless. So we have opened up a new market which our customers that tend to be a bit smaller, they tend to be cloud-first. And they're buying, and they can land with advanced ITAM. Now that's not the typical motion. Typically, they're landing with ITSM. But it's a great way to expand. It's a fairly lightweight sale to do that. And that's just an example of when we get these products integrated, there's a huge opportunity for us. The FireHydrant product, that's coming out in Q1, and we're very optimistic about that as well because a lot of our customers are using other

solutions which tend to be more expensive. The integration is a bit clunky. We've got one of our competitors that's end-of-lifing their products. So there's a big opportunity for us there to take share and really drive that ITOM product into the market as well. So I think the expansion motion for us, there's multiple plays that we now have as we build out -- as we're building out the platform. And that's just going to continue over the course of 2027.

Robert Cooney Oliver | *Robert W. Baird & Co. Incorporated, Research Division*

Great. Really helpful. And then, Tyler, just would love to hear from you, and it might be early because this might be more in the context of the out-year guide. But to get a sense for as that perpetual license shift to cloud happens, are you guys going to require that move for customers? There's going to be some math around it, I would assume? Obviously, the headwind from less perpetual upfront. But anything else we should know about contract durations, how long that will play out, potential uplift? Anything else you can share would be helpful.

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

Yes. No, we are not going to require the move because some customers, they want the on-prem product, and we will still sell it. But what we do anticipate is that as customers come up for renewal, there are going to be a number of them who want to migrate over, and we've already seen some of that. And to the extent that this actually impacts numbers, we'll share that. We did kind of build in. We had previously had about $2 million of term license revenue in Q4 that we're now assuming that's going to be more ratable. So that provided a little bit of headwind to our Q4 revenue guide. We built that into the guide. And it's all part of the strategy, right? It's actually what we want. But this is going to be a shift that's happening over the next couple of quarters, but we've built all of that -- those numbers in. But we are going to have both, Rob. And so we will still see some customers who renew on that on-prem product. And like we have in the past, we will call it out if it provides any anomalies.

Operator

Your next question comes from the line of Jackson Ader with KeyBanc Capital Markets.

Jackson Edmund Ader | *KeyBanc Capital Markets Inc., Research Division*

The first one that I have is on just the messaging and just like the deprioritization on the CX side. I just feel like it's so tricky to find the right balance. And so I'm curious, like what are some of your largest CX customers? Like how are they actually reacting to either your messaging continue to prioritize or some of the actions that you've taken to deprioritize that side of the house?

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

Yes, I wouldn't describe it as deprioritization. I mean, we've said we're EX-first. CX is a critical part of our business, and those customers are super important for us. The biggest investment we've made that benefits small and large customers is this shift to the new Freshdesk Omni. In that new experience, an agent can handle conversation right alongside e-mail-based correspondence alongside voice in a way that they couldn't before. And a customer can move from an e-mail experience to a conversational experience to an AI experience seamlessly. And that's all very different from the approach that we had before where the product line was somewhat fragmented across conversational, traditional ticketing and so forth. So that change is very important for those larger customers. And it also allows us to concentrate our innovation on a single codebase, which allows us to move faster. The other area that our larger customers are benefiting by and you're starting to see in the numbers is AI. So our AI Agent Studio for CX had a very strong quarter. Tyler mentioned in his remarks, $2.5 million in revenue coming -- new ARR coming from that in the quarter alone. And we're starting to see the sessions associated with that product really ramp up quarter-over-quarter as the customer base gets more comfortable with true agentic actions for their consumers or for their customers. And as the capabilities of that platform are continuously expanding as we add more prebuilt configurations into the studio, into the marketplace and our customers can build their own custom experiences, which, of course, takes some time for them to do, to test, to get comfortable with, but you're starting to see that really happen. And those tend to be larger

customers. So I think there's plenty of goodness in it for the larger customer base. We certainly don't say we're deemphasizing the product. We're continuing to develop our CX product. But I think it's also important to be clear that EX is the driver of our growth, and EX is where our -- or the majority of our investment has been going.

Jackson Edmund Ader | *KeyBanc Capital Markets Inc., Research Division*

Yes. Okay. I got you. And then a quick follow-up. Can you -- there just have been a few tuck-ins, tuck-in acquisitions. Is there any size for the inorganic -- the total inorganic contribution, either in the third quarter or in the fourth quarter guide?

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

Yes. So Jackson, we have -- we closed both Torii and Robusta. We expect to get between $8 million to $10 million of ARR from the two of them by the time the quarter ends, and there's nuances and contracts that come over and things like that. And as part of that, about $1.5 million of revenue in the quarter is the current expectation.

Operator

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

Brian Christopher Peterson | *Raymond James & Associates, Inc., Research Division*

Maybe just following up with the last one related to M&A. As your free cash flow margins have gotten to 30%, would you anticipate being a little bit more active in the M&A market? And I'm curious what the valuation environment looks like for some of the targets that you guys might be looking at?

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

Yes. So we've been pretty active this year. We've done 3 transactions. We're looking for -- we're looking for areas that will accelerate our road map and enhance the overall platform value that we've -- that we're creating. We're also looking for talent and for, in particular, deep technical expertise in subject areas where our team might not have that expertise, AI, expertise is always really exciting for us. Robusta is an example of an AI-first company that's doing amazing things with an amazing technical team that we're really excited about. And so we have the ability to go out and to find those companies. I think the valuations are all over the map, right? You can be talking to a company with $20 million in ARR and they're expecting 30x ARR, and that's not what we're going to go after. But there's plenty of opportunities out there for teams that are doing interesting work and that want to be part of a bigger platform, that want to have access to a go-to-market operation that they just simply couldn't build themselves. I think for both Torii and Robusta, that was a big part of the appeal. They want to see the hands of -- their product in the hands of thousands of customers, not hundreds. And that's what we offer. So I think you'll see us continue to be prudent in the M&A market, but we've also built up the muscle where we're able to do these transactions smartly, able to integrate the teams, able to integrate the products, able to retain and develop the talent. So I think we're more confident going forward in our ability to do meaningful deals. And we've proven, because of the cash generative ability of the business, that we can fund these out of cash flow effectively.

Operator

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

Taylor Anne McGinnis | *UBS Investment Bank, Research Division*

Just on the EX business specifically, it looked like it slowed a little bit to 22% constant currency, I think you mentioned. And then if I look at the outlook and if I take out the $8 million to $10 million of ARR from acquisitions, it looks like you're assuming the EX business is going to continue to grow in this low single digit range on an organic basis. So could you just comment on if anything changed or if anything surprised you in the quarter? And what might be the drivers of that?

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

Yes. So I'll start, and Tyler can take it up. So I think the momentum that we see in EX continues to be very strong. And you're going to have quarter-to-quarter blips up and down. I think what we saw in the quarter was this continued demand amongst that class of companies from 5,000 to 20,000 employees that are meaningful businesses with real enterprise needs. They need a secure solution. They need a solution that's very much embracing AI, and they're looking for a platform. And that's why you're seeing that substantial growth in the over $100,000 customer base. That's the customer that we really -- that's really resonating with us. I think if you look forward, we're really optimistic, first of all, because if we look at our new business and expansion pipeline, it's quite strong. Going into Q4, Q4 is historically the biggest quarter of the year for us. But like I was saying earlier, just the embedded expansion value in the customer base that we have now, now that we have a broader product set is really impressive and something that we have to go after that will allow us to accelerate growth from where we are now in a way that's frankly more predictable than new business, right? Our emphasis has so much been on new business, which is where it should be. We're in the market to take share, but we need to get that expansion motion going now that we've got a fuller product set, a fuller platform story. And I -- just one -- I think you said low single digits. What we're -- what we delivered last quarter was 22% constant currency, just to clarify.

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

Yes. And Taylor, the math is right in terms of the numbers we gave out for Q4, the $8 million to $10 million, and we -- but we said we plan to exceed $625 million ending the year. As Dennis just mentioned, Q4 is historically our largest quarter. We have the most pipe that we're working right now. We clearly are executing, and we feel like the changes we made at the beginning of Q3, that they're now settled in. And the teams are executing, but we have to obviously go finish up the quarter.

There are no other changes on EX. We think the opportunity is massive. And we are structurally really focused going into next year also on the expansion motion into our existing base, which we think the majority of that will play out throughout 2027.

Operator

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

Aleksandr J. Zukin | *Wolfe Research, LLC*

I guess, maybe, Dennis, for you, on sales cycles and the broader demand environment. Maybe can you comment like what are you seeing right now on the ground in the midst of [token] spend, incremental anxiety on cyber? Is that helping sales cycles because you're getting more involved in those projects or maybe making them a little longer as those activities kind of crowd things out? And then I have a quick follow-up for Tyler.

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

Okay. So let me -- first, thanks for the question. Let me start with the spend side. Absolutely, the pressure on budgets is helping us because we're moving upmarket, we're taking share from bigger incumbents

that are typically a lot more expensive. And that's not just the licensing cost, that's the total cost of managing the solution, keeping the solution current, changing workflows as your business processes change. The other trend that's benefiting us is just a desire among CIOs to consolidate to fewer platforms. That also helps us as we broaden the platform story. I think there is a point about cycles that is important to understand. Our average deal in our pipeline, our average opportunity in our pipeline has doubled in the last year. The average deal size has doubled in the pipeline. And we're seeing more and more of these large new opportunities come in through -- in some cases, we had a number of large deals, I think 1 $0.5 million deal that came in through a webinar, right? So they're finding us, which is great. And things like Gartner Magic Quadrant helps, the IDC Top 3 in IDC help. All that's helping us get better awareness, better recognition among a larger set of customers. We also have a much better referral network than we had 2 years ago because we have all these big customers. And every quarter,

we've got new customers coming on board that were tenured customers of our biggest competitor. And they are then talking to their peers and recommending us. All that helps. But that does mean these deals are bigger. They're more complex. There's more parties involved. And so our whole go-to-market has had to mature for that larger deal. And we do see, in some cases, the sales cycles are longer than what we've previously expected.

So the challenge for us internally is how do we keep moving upmarket, how do we raise our game, get the right people in the door, train the people that we have to be able to match that larger buyer, that more complex buyer. And yes, I would say that our -- the cycles have elongated somewhat. I think we've adjusted to that, but that's part of the territory that we're going into as we move upmarket on the EX side.

Aleksandr J. Zukin | *Wolfe Research, LLC*

Got it. Tyler, maybe for you, I guess, again, kind of the spirit of the question is you're talking about a confidence in growing EX mid-20s. But again, forward-looking metrics, whether it's billings, they were a little light or CRPO decel or even kind of EX ARR, if you exclude the $8 million to $10 million from acquisitions, you're exiting the year closer to 20% growth in EX. Whereas, I think before you were targeting 25%. So maybe, just what is giving you the confidence to say it's going to reaccelerate to that mid-20s, and given those forward-looking metrics?

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

Yes. I think -- so Alex, on the numbers on the -- for the Q4 and backing in based on the $8 million to $10 million and the greater than $625 million, I really think that's like a 22% kind of constant currency number there is what we're kind of -- what that should roll through at. The confidence is really the market there. The pipeline is absolutely there for us, and it's really about adjusting, as Dennis said, about making sure we have the right people to close those deals. And that's mainly on lands. And we feel like we haven't even turned on the expansion motion yet. Again, advanced ITAM, which is our cloud offering, just is becoming available to our existing installed base in Q3 and Q4. ITOM, which was the FireHydrant acquisition, will not be ready to be sold until kind of the end of this quarter to beginning of next quarter in terms of it being released on the new -- fully platformed onto our whole Freshservice platform. Those things are what give us confidence. And what we know is that as customers are buying them as they land, the attributes look really, really good and they're seeing the value. That, along with all of the AI initiatives that we're making right now. So yes, we're very bullish in terms of what we can do with our existing installed base. And the new business, everything that we're seeing there is really, really strong. Again, even with all the disruption we had, we still landed more greater than $100,000 deals in EX than we ever have before in Q3. And we're just going to keep plugging away at that.

Aleksandr J. Zukin | *Wolfe Research, LLC*

And just to clarify, Tyler, I apologize. The $625 million, is that including the $8 million to $10 million of acquisitions or excluding?

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

Yes, it does include the $8 million to $10 million.

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 for Dennis. In August, you announced that Freshservice achieved FedRAMP In Process designation. Can you maybe talk about what your expectations are in terms of like timeline to achieve full certification there? And how you view the opportunity in terms of scale and the competitive landscape there?

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

Yes. So FedRAMP is an important investment for us, and we're very excited about going through the process. The opportunity there is huge. We already have a number of government-affiliated laboratories around the country that are using Freshservice. What we -- and they, in turn, have pulled us into a major department of the government who has agreed to help us through the process. And the thesis is that there's -- in large government, there is a large opportunity that's similar to what we're seeing in the commercial market. Organizations that are not necessarily the U.S. Army, but organizations with tens of thousands of employees that are looking for something that's more nimble, better suited to their need. They're under the similar budget challenges that we're seeing in our segment of the market in that agile enterprise. But they historically haven't had much choice. There haven't been a lot of solutions that have been FedRAMP-certified. And they know they need something to automate how IT works, but there just hasn't been a choice. So we're going to give them a choice. In terms of timing, I think it's Q3 of next year, roughly.

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

Yes. Right now, the current timing is our expectation is that we would be done by the end of the summer. Obviously, we -- this is a big effort, and a lot of it is both in the way we deploy the product, but a bunch of product work that we're doing. But right now, it looks at the end of Q3, it's going to be ready. At the same time, we're doing both Rev5 and 20x. There's two things you got to do now because the FedRAMP rules have changed a little bit, so it makes it a little bit more complex. So we're working with some of our sponsors on that who are already customers. But at the same time, yes, it's a massive opportunity. And so we are starting to build out what that sales motion would also be, which we haven't necessarily had internally to be ready for when we get there.

Tamjid Md Moinuddin Chowdhury | *Guggenheim Securities, LLC, Research Division*

And then, Tyler, as a follow-up, it looks like the EX net dollar retention excluding legacy Device42, I think it was like 109%. That is slightly lower than the 111% that you reported last quarter. Can you provide more color on what's driving that? And how did that pan out relative to your expectations?

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

Yes. It was roughly in line with expectations. Again, on the expansion side for EX, we have ESM primarily and then also agent addition and Copilot. The ITAM product, right, that's just coming available for existing customers, which we think is going to be a huge driver for continued expansion. Then a follow-up with ITOM, which is -- the most will most likely be ITSM land with ITAM, if they're buying new upsell to ITAM if they're existing, and then follow on with ITOM. So we looked at that. There's a little bit of noise in that number, but nothing that we thought was concerning.

Operator

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

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

So thanks, everybody, for joining the call today. Just to reiterate, Q3 delivered on our priorities: EX-first momentum; category leadership with agile enterprises; and in the mid-market, AI as an expanding tailwind, disciplined profitability and prudent capital management. We're very confident in our plan for a strong 2026 finish, and we look forward to speaking with you next quarter. Thank you.

Operator

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