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Samsara, Inc. (IOT)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Good afternoon and welcome to Samsara's Fourth Quarter and Fiscal Year 2022 Earnings Call. I'm Mike Chang, Samsara's Vice President of Corporate Development and Investor Relations. Joining me today are Samsara Co-Founder and Chief Executive Officer, Sanjit Biswas; and our Chief Financial Officer, Dominic Phillips.

In addition to our prepared remarks on this call, additional information can be found in our shareholder letter, press release, investor presentation and SEC filings on our Investor Relations website at investors.samsara.com. The matters we'll discuss today include forward-looking statements. Actual results may differ materially from those contained in the forward looking statements. Any forward looking statements we make on this call based on assumptions as of today, March 2, 2022, and we undertake no obligation to update these statements as a result of new information or future events, unless required by law.

During today's call, some of our discussions will include our fourth quarter and fiscal year 2022 financial results. We'd like to point out that the company reports non-GAAP results in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. All financial figures we will discuss today are non-GAAP, except for revenues and revenue growth. Reconciliations of GAAP to non-GAAP financial measures are provided with our press release and investor presentation. We'll make opening remarks, provide an overview of our business for those that are new to the story, dive into Q4 highlights, and then open up the call for Q&A.

With that, I'll hand the call over to Sanjit.

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

Thanks, Mike, and thank you, everyone, for joining us today. Before beginning, I want to take a moment to recognize that war in Ukraine. Well, we don't currently have any employees there or do business in Ukraine or Russia, many of us have friends and family in the region, and our hearts go out to everyone affected by this tragic situation.

Now, onto our prepared remarks on our first earnings call as a publicly traded company. Our IPO in December was an important milestone in advancing our mission to increase the safety, efficiency and sustainability of the operations that power the global economy. It would not have been possible without our customers, partners, investors and all the Samsarians who helped along the way. I'd like to take a moment to thank everyone that contributed to Samsara's success. We see significant market opportunities ahead and are confident that the best is yet to come.

In fiscal year 2022, we achieved a significant company milestone in surpassing \$0.5 billion of ARR while growing more than 60% year-over-year. Reaching this level of scale, while maintaining a high growth rate, is a testament to the team's hard work and dedication.

We also continue to see exceptionally strong growth in the \$100,000-plus ARR customers. We now have more than 800 customers in this segment, including Roto-Rooter Services Company, Chefs' Warehouse, Atlas Van Lines, Sunrun, Performance Food Group, the State of Tennessee and many others. We see our success with

large customers as a sign that are connected operations cloud is resonating with large scale, complex physical operations.

Before we get into the details of this quarter, given that this is our first earnings call, I'd like to spend some time providing an overview of our business for those new to our story and provide some perspective on what's driving our growth. Through our work deploying networks during our first venture at Meraki, we got to see a lot of operations up close. We saw a huge opportunity to digitally transform the world of physical operations across organizations in logistics, supply chain, energy, utilities, food and beverage distribution, construction, local governments and more. These industries are the backbone of our economy and make up more than 40% of global GDP.

We're living in a time of rapid change. Over the last 10 to 15 years, digital transformation has disrupted entire industries, but the way the physical operations businesses work hasn't kept pace. We believe that the next chapter of digital transformation is about connecting the world's physical operations to the cloud, making operations safer, more efficient and more sustainable.

Historically, the complexity of physical operations made it difficult to connect and analyze data at scale. Recent breakthroughs in technology are unlocking this opportunity. First, the ability to collect vast amounts of data and process it in the cloud is growing exponentially. Second, more IoT assets are connecting to the internet. Third, and evolution in wireless technologies has enabled higher bandwidth and greater coverage, making it possible to do things like stream HD video in real-time. And last, sensors are now being made smaller at lower costs and higher quality than ever before. These were all big enablers as we built Samsara. We're bringing the latest in technology to the world of physical operations as we help companies make the jump from 20th century pen-and-paper processes to 21st century digital technologies.

For many physical operations businesses, digitizing their fleet is the first step to transforming their entire operations. Fleets are critical to moving people, goods and services. They're central to the operating model of almost every physical operations business. We've seen tremendous traction with our safety and telematics applications for fleet, and we believe we're just scratching the surface of this market.

As we began developing tools for fleets, we realize that they aren't just a collection of vehicles. They're part of a broader operation. So, we start asking questions about the other components of our customers' operations and uncovered new opportunities. We saw that many of them have equipment out in the field like tanks, generators, compressors, trailers and other types of industrial assets. We connected those pieces of equipment to the cloud and offered the same visibility and insights customers had with their fleets. Customers love that they could get this broader view of their operations on one platform, analyze and make changes to their operations based on the insights we provided.

From there, the concentric circles of our product offering started to expand. Its customers started asking about their loading docks, warehouses, factory floors and remote sites. So, the next area of technology we developed was Connected Sites. Site Visibility is an application that lets customers pull video from IP cameras that are already installed and connects them to the cloud. By bringing different parts of an operation together in a single integrated cloud platform that we call the Connected Operations Cloud, we unlock unprecedented value for our customers.

Here's how the Connected Operations Cloud works. First, we aggregate massive amounts of data from vehicles, pieces of equipment and sites using Samsara gateways. In addition to the data we gather directly, we also

integrate with OEMs and other third parties to bring in external data. All this data flows into our cloud, where we process it, aggregate it, enrich it and run it through our AI and machine learning models.

From there, this data can be used to power workflows or provide alerts to customers. Ultimately, this manifests in the different applications that we license to the customer, depending on what problems they're trying to solve. Our revenue primarily comes from three to five-year subscription contracts. Each license we sell corresponds to a specific application for a given asset, making it easy for our customers to scale up or down depending on their needs.

Our Connected Operations Cloud is operating at a scale that's difficult to replicate and that advantage is only compounded over time. The amount of IoT data we process in our cloud is more than doubled, from 2.2 trillion data points last year to about 4.6 trillion this year. In addition, API calls grew to 33 billion this year, an increase of more than 4x year-over-year. And video recorded on our IoT devices grew 2x to 85 billion minutes. We use this massive amount of data to regularly train our AI models and enhance our benchmarking data.

Our customers are able to combine safety in telematics data to unlock new use cases. For example, customers can exonerate the driver by recreating an entire accident. They can also benefit from risk-adjusted insurance premiums by quantifying the safety of their fleet. Samsara's data-powered applications are meaningfully impacting our customers' bottom line.

As more customers connect to the Samsara platform, the scale of our data grows, our models get better and we have even more opportunities to provide rich insights and actionable tools to our customers. We have approximately 14,500 core customers around the world who touch nearly every aspect of the global economy. They are leaders in industries like transportation and warehousing, construction, field services, utilities and local governments.

Our horizontal platform is built to serve a wide variety of industries and requires little to no customization. This allows us to meet the needs of a diverse customer base and efficiently go to market with a horizontal sales motion. Our global sales team sell all Samsara applications to customers across all industries. Our direct sales motion includes an inside sales team and a distributed field sales team. We also work with a network of resale partners.

We estimate our total addressable market to be \$55 billion, growing to \$97 billion by 2024, which represents a 21% compounded annual growth rate. The world of physical operations is rapidly digitizing and we're in the early innings of this massive opportunity.

At Samsara, our people, our culture and our shared mission drives our growth. Our team delivers world-class innovation and customer support that has distinguished Samsara year-over-year. Our laser focus on the success of our customers is the force behind our feedback loop, powering our product development roadmap and our close relationship with our customers. This year, we are honored to have received awards that recognize the impact of our values and our culture, including recognition on the 2021 Forbes Cloud 100, the Forbes AI 50 and The Financial Times' Fastest Growing Companies in the Americas list.

With that, let's dive into the fourth quarter. First, we saw strong sales momentum in Q4, driven by the addition of new customers and the continued success of our land-and-expand strategy. We ended the year with ARR of \$558 million, up 64% year-over-year. During Q4, we added over 90 \$100,000-plus customers which brings us to over 800 \$100,000 ARR customers in total.

I'll touch on some big wins from this quarter. First, we welcome the new Fortune 500 customer in a seven-figure deal. This peer-to-peer car sharing service operates in over 15 airports nationwide. They saw a sharp increase in demand due to limited rental car availability caused by chip shortages. So, they chose Samsara's vehicle telematics solution to track and maintain their 6,100-vehicle fleet. Our solutions help keep their fleet running longer and more efficiently. Now, they're better positioned to gain valuable insights, improve efficiency and increase fleet longevity across their extensive operations.

Next, one of the largest office retailers in North America chose Samsara for their 1,100 vehicles and 40-plus warehouse and fulfillment centers in a six-figure deal. They're using Samsara's video-based safety and vehicle telematics applications to increase safety and reduce carbon emissions across their supply chain. During the Samsara pilot, they reduced safety events by 73% by using our real-time in-cab audio alerts and driver coaching.

This quarter, we also saw significant expansions with some of our largest customers. I'll highlight two exciting Fortune 500 expansions. The first is a distribution company with 10,000-plus drivers and supporting teams. In a multimillion-dollar expansion deal, they added our vehicle telematics and driver workflow solutions to their current deployment, a video-based safety coaching solutions. Samsara is helping them protect and create new efficiencies for their employees.

The other Fortune 500 expansion is one of the world's largest logistics companies with more than 400,000 employees in over 220 countries and territories. They replaced several disparate solutions with Samsara's Connected Operations Cloud and now use our video-based safety, vehicle telematics, apps and driver workflows, and equipment monitoring applications across multiple business units within the organization. Samsara's providing an integrated view of their operations, improving their safety record and improving their customer service. With Samsara, they have a data trail and real-time visibility from the moment a route is created until the delivery is completed.

Next, I want to talk about multi-product adoption. As I mentioned earlier, we began our platform with fleet applications and expanded our offerings to capture data from equipment and sites. With visibility into more parts of their business, customers are able to extract richer data and achieve better insights into their end-to-end operations. For example, Aunt Millie's is a 120-year-old family bakery that produces and distributes 0.5 million pounds of bread daily across hundreds of stores. In Q4, they deployed Samsara's Site Visibility to reduce the risk of theft and damages across their branches, retail locations and offices. In addition, it protects the integrity of the product that ends up in the hands of consumers. Aunt Millie's now uses Samsara applications for site visibility, video-based safety, vehicle telematics, apps and driver workflows, and equipment monitoring. This gives them real-time insights into the robust operations which supports their long-term business goals for safety and efficiency.

Finally, I'd like to share three examples of how we continue to build for long-term. First, we're making ongoing investment in developing our ecosystem of partners and integrations. We now integrate with over 155 partners to unlock data directly into the cloud. On average, our large customers are using four or more integrations.

In addition to software partners, we successfully integrated with leading OEMs of vehicles and equipment like John Deere, Ford, Navistar, and Komatsu. OEMs are increasingly embedding sensors and cloud connectivity in new vehicle and equipment models. Our OEM integrations help customers to bring IoT data from their assets directly into the Samsara cloud.

We are building an open platform that connects other business-critical systems to Samsara. Our customer get even more value out of our Connected Operations Cloud, leveraging our solutions we provide and the data we gather. This makes our platform even stickier and helps drive long-term growth.

Second, our customer-centric approach and rapid pace of innovation are core to our long-term growth strategy. We released over 200 features in FY 2022. These included new workflows in the Samsara Driver App, providing drivers the tools they need to operate safely and efficiently throughout their day. In Q4, we also released Camera Connector, which provides 360-degree visibility into road conditions and safety hazards by connecting with multiple camera feeds.

Third, we attribute our growth to Samsara's differentiated culture and shared mission to increase the safety, efficiency and sustainability of the operations that power the global economy. Specifically, the work we do helps customers reduce their environmental footprint, and it's a competitive differentiator that helps us attract and retain top talent. We plan to continue our hiring momentum in FY 2023 as we invest in the business to meet customer demand.

We continued expanding our international footprint in FY 2022 by opening new offices in Mexico and the Benelux region. Our talent base across the organization also continues to grow. We recently brought on Dave Bossio as our Chief Information Security Officer. Dave is an industry veteran with over 20 years of experience building and scaling teams at Salesforce and Microsoft, and a welcome addition to our growing team. Our total employee count is now over 1,600, representing approximately 30% growth in FY 2022. It's clear that Samsara is a top talent destination.

This was a fantastic quarter and fiscal year for Samsara. We're in a strong position. We're also excited to host our customer conference on June 15 and 16, during which we will provide additional insights into Samsara's trajectory and the future of physical operations. I'd like to end with a huge thank you to all Samsarians as well as to our customers, partners, and investors. I know I speak for the whole team when I say we're just getting started and are excited by the tremendous runway ahead of us.

With that, I'll hand it over to Dominic for financial highlights.

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

Thanks, Sanjit. As a reminder, please refer to our shareholder letter and investor presentation at investors.samsara.com for additional information on our Q4 results and FY 2023 guidance.

Q4 was our strongest quarter ever. It was highlighted by incredible top line growth, driven by continued large customer momentum, multi-product success and significant expansions within our existing customer base. Before jumping into the results, I first want to give a quick overview of our business model.

More than 98% of our revenue is generated from subscriptions to our Connected Operations Cloud. We typically sell three to five-year subscriptions for all of our applications, each of which includes a standard set of services, including data collection, which usually comes from a Samsara IoT device; cellular connectivity, access to our cloud-based platform; customer support and warranty coverage. Because these services are included in each subscription, we recognize revenue from the entire license ratably over the life of the contract. And as Sanjit mentioned earlier, each license we sell corresponds to a specific application for a given asset, making it easy for our customers to scale up or down depending on their needs.

I also want to touch on how we think about our customer strategy. At the end of FY 2022, we had more than 28,000 total customers, approximately half of which are small customers with less than \$5,000 of ARR who contribute only 7% of total ARR. The other half are core customers with more than \$5,000 of ARR who contribute 93% of total ARR. This is the segment we're actively investing in going forward and within our core customers, we're heavily focused on large customers with more than \$100,000 of ARR who contribute 45% of our ARR mix.

Now, let's get into the results. In FY 2022, we delivered meaningful growth at scale with ending ARR of \$558 million, growing 64% year-over-year. Revenue in FY 2022 was \$428 million, growing 71% year-over-year, and our Q4 revenue was \$126 million, growing 66% year-over-year. A few factors drove our strong top line performance.

First, our investments in landing new customers and expanding our relationship with existing customers that pay more than \$100,000 annually are paying off. We now have 806 customers with ARR of more than \$100,000 each, an increase of 91 customers in Q4 and an annual increase of 354 customers in FY 2022 or 78% year-over-year growth. As a result, \$100,000-plus customers now contribute 45% of our total ARR.

Second, multi-product transactions continue to contribute significantly to our top line growth, showing the strength of our Connected Operations Cloud in the market. 8 of our top 10 deals in Q4 included two or more subscriptions and over 70% of our core customers and 90% of our \$100,000-plus customers subscribe to multiple applications.

We're also seeing multi-product adoption at scale. At the end of Q4, our vehicle telematics and video-based safety applications were more than \$200 million of ARR each, and our remaining applications combined contribute more than 10% of total ARR.

And finally, Q4 was another quarter of strong customer expansions and while we added a record number of new customers in the quarter, Q4 was the first quarter ever that more than 50% of our net new ACV came from our existing customer base. As a result, our large customer dollar-based net retention rate continues to be greater than 125% and our total customer dollar-based net retention rate continues to be greater than 115%.

In addition to our strong top line performance, we continue to operate more efficiently as we scale. As a result, we saw strong year-over-year leverage across all functions. Our Q4 non-GAAP gross margin was 74% compared to 72% in Q4 last year, an improvement of 2 percentage points driven by lower excess and obsolete inventory expenses. Our Q4 non-GAAP operating margin was negative 14% in Q4 compared to negative 41% in the same period last year. The year-over-year improvement of 27 percentage points was driven by increased go-to-market efficiencies, including improved productivity and a stronger focus on cost management.

And our adjusted free cash flow margin improved by 7 percentage points year-over-year, driven by the operating leverage I just mentioned, but partially offset by negative working capital adjustments, primarily from required upfront inventory purchases.

And while the global supply chain disruption continues to put pressure on critical component costs and availability, in Q4, we improved our gross margin, we shipped enough IoT devices to meet all customer demand, and we continued to build a larger inventory buffer to reduce the impact of future supply chain disruptions on our business.

And the final Q4 point I want to make is regarding hiring and head count. We primarily go to market with a direct sales model. As a result, adding more sales capacity along with improving productivity is a key driver of future growth. After reducing head count capacity in FY 2021 at the beginning of the pandemic, we reignited our hiring

engine in FY 2022 and grew head count close to 30% this year and Q4 was one of our largest hiring quarters since COVID emerged and we ended the year with 1,616 total employees.

More than one-third of the net new employees in FY 2022 and more than 40% of the net new sales and marketing employees in FY 2022 started in Q4 alone. Based on our average ramp times, we expect the productivity of new sales hires in Q4 FY 2022 to be fully productive by the end of FY 2023. And in addition to ramping productivity, we expect to hire even faster in FY 2023 to drive durable growth for years to come.

Okay, now, turning to guidance, for Q1 FY 2023, we expect total revenue to be between \$130 million and \$132 million, representing year-over-year growth between 48% and 50%; non-GAAP operating margin to be approximately negative 25% and non-GAAP EPS to be between negative \$0.07 and negative \$0.08, assuming 507 million weighted average shares outstanding.

For full year FY 2023, we expect revenue to be between \$568 million and \$578 million, representing year-over-year growth between 33% and 35%; non-GAAP operating margin to be approximately negative 22%; non-GAAP EPS to be between negative \$0.25 and negative \$0.27, assuming 514 million weighted average shares outstanding.

Please note we provide guidance based on our margin expectations or our operating metrics as a percentage of revenue instead of dollar-based results to align with our philosophy of prioritizing investments for growth while driving margin leverage in our model. And, finally, we included some additional modeling notes for full year FY 2023 in our shareholder letter.

So, to summarize, we're very pleased with our Q4 results and our first quarter as a publicly traded company. We're operating in large, fast-growing markets and our customer demand has never been stronger as they embrace digital transformation to drive safety, efficiency and sustainability across their physical operations.

With that, I'll hand it over to Mike to moderate Q&A.

QUESTION AND ANSWER SECTION

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

A

Thanks, Dominic. When I open the line for questions, when it's your turn, please limit your questions to one main question and one follow-up question. The first question today comes from Keith Weiss of Morgan Stanley, followed by Sterling Auty at JPMorgan.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you, guys, for taking the question and very nice initial quarter. Great to see that outperformance on the top line.

I was hoping you could talk to a little bit about the competitive environment both in terms of, obviously, you guys have taken a lot of share in this market. These are growth rates well ahead of the overall market growth. Who are the competitors you're seeing and why is Samsara winning and getting so much share?

And maybe as a follow-on question, you talked about partnerships and integrations with OEMs to get the data from sensors that they're embedding. Is there any sense to which those OEMs are becoming more of a competitive threat or is the heterogeneity argument just too strong for them to become real competitors to what Samsara is offering?

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

A

Hi, Keith. This is Sanjit. So, on a competitive point, we see a number of different competitors, depending on the kind of application we're engaging with the customer on. So, for example, there are different competitors in telematics versus driver safety versus even areas like compliance, connected equipment and connected sites. So, it's a fragmented set.

The big pattern, however, is that they tend to be legacy incumbents. Their technologies haven't changed in 15 to 20 years and the solutions are fragmented. So, the data is siloed. The customers can't gain insights from connecting all that data together.

So, the biggest difference that we offer the customer is that we're one, single consolidated platform. We have a massive data advantage. I talked about some of the statistics earlier in the call, but the amount of video we're processing in our cloud is now expanded. The amount of data we're collecting in the cloud has expanded. The number of connections we offer is also unprecedented. So, that's our big differentiation, I think one of the reasons we see customers switching over so quickly.

And then, in terms of market dynamics, I think the telematics market, while has been around for some time, is more penetrated. The driver safety market is more greenfield. And so, we are just seeing the market expand. This is a \$55 billion TAM, growing to about \$100 billion by 2024. So, it's just a – it's a growing market as well.

The second part of your question, you asked about partnerships with OEMs and whether they're competitive. I think you touched on it, which is what we see today is that our customers have heterogeneous fleets. They don't

just drive one make or one model of vehicle and so they want to see data across all their operations and often not just trucks. They want to see their warehouses, their factories, their equipment, all in one place.

And so, our OEM partnerships are really kind of playing into that where we can connect the data to our cloud directly. It's a better customer experience in terms of it being seamless and software-driven. But it does provide that full visibility and that's our differentiation and that's something that OEMs alone cannot offer.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Excellent.

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Our next question comes from Sterling Auty at JPMorgan, followed by Kash Rangan at Goldman Sachs.

A

Sterling Auty

Analyst, JPMorgan Securities LLC

Yeah. Thanks. Hi, guys. So I'll just ask one question. So, if I simplistically think about your business as being solutions that are either in or attached to vehicles versus out of vehicle, when you look at the new customers that you brought on during the quarter, what percentage of those took something that was outside the vehicle, so like warehouse and some of the other use cases that you described?

Q

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

Yeah. Hey, Sterling. It's Dominic. So, the bulk of our ARR and the new customers that we onboarded in Q4 and expanded too in Q4 are using a vehicle-based solution, so whether that's telematics, safety, driver application and workflows. About 10% of our ARR is outside of the vehicle, so that's things like connected sites and connected equipment. I think it's worth mentioning the connected equipment product, this was the largest net new ACV mix that we've seen ever in that product. And so, still seeing a lot of momentum in the vehicle-based solutions but a nice quarter in our emerging products as well.

A

Sterling Auty

Analyst, JPMorgan Securities LLC

Understood. Thank you.

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Our next question comes from Kash Rangan at Goldman Sachs followed by Matt Hedberg at RBC.

A

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

I hope you can hear me okay and I'll take that as a yes. And [Technical Difficulty] (28:48).

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

A

I think we lost you there, Kash. Let's move forward and we'll have Kash ask his question when he comes back. Let's move forward. Let's move to Matt Hedberg at RBC followed by Kirk Materne at Evercore.

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

A

Matt, are you on?

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

A

And do you have a question?

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Oh, sorry about that, guys. I unmuted on Zoom, but not on my phone. Strong quarter, guys. I think when we think about the potential drivers, ELD is something that's really starting to resonate, I think, with partners as well as investors as a tailwind here. Within that kind of the app and driver workflow, I guess maybe probably compliance, how important is that when we think sort of long-term catalyst for growth in that segment?

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

A

Matt, I'll take that. This is Sanjit. ELD has been a nice tailwind to the business, but it's been around for quite some time. In fact, when we first started shipping the telematics product several years ago, the ELD mandate was just coming to the foreground and has continued to be in place now for heavy vehicles here in the United States.

That being said, over three quarters of our business is to vehicles that don't require ELD. In other words, they're not covered by the mandate. Now, those drivers often benefit from the driver-based app that we offer and the tools. So we simplified things like the walk around inspection, start of day and end of day workflows, things like that. So we are seeing strong adoption of our apps and we expect that to continue. And ELD is a feature on that app, but it's again not required for all the vehicles. So we're happy to have it as part of the feature set, but we're actually just seeing strong adoption of apps in general out in the field.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Got it. That makes a lot of sense. And then, Dom, one for you. Obviously, huge market opportunity and I think you alluded to that on your spending expectations. International is massive obviously as well and it's really underpenetrated from the Samsara perspective. How do you think about allocating expenses from an international perspective given obviously a large market domestically here but an untapped international opportunity?

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

A

Yeah, it's really – it's a fine balance. The market opportunity in North America is still very, very large. 90% of our ARR is in the US and about 10% outside of the US. And so we're still seeing a lot of incredible growth in our own backyard and that is where the bulk of our investment dollars are. But we do recognize that the same problems that exist for customers in the US exist are very similar problems that exist in other markets and so we are investing. That's one of the big priorities for us as we go into FY 2023 is more international expansion and today,

we're really focused on areas like Western Europe, Canada, and Mexico and would expect those regions to grow faster than the US although at smaller scale at this point.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Thank you.

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Our next question comes from Kirk Materne at Evercore followed by Michael Turrin at Wells Fargo.

A

Peter Burkly

Analyst, Evercore ISI

Great. Hi, guys. This is actually Peter Burkly. I'm filling in for Kirk. Congrats on a great quarter and thanks for taking the questions here. So I guess first, just to start us off, hiring in 4Q is obviously a very impressive 30% year-over-year. And the commentaries you just made you're going to hire even faster coming into this next year. So I guess just with that as a baseline, given what we've been hearing about the competitive landscape in terms of just hiring talent, I'm curious how that plays into your hiring intentions for fiscal 2023.

Q

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

Yeah. We really stepped on the gas. It's Dominic, Peter. We really stepped on the gas hiring-wise in Q4. As I mentioned, one-third of our total net new employees in the entire year started in Q4 and within sales and marketing, more than 40% of those FY 2022 hires started in Q4. So, a lot of focus on it. We were able to hit our FY 2022 goal of getting to over 1,600 employees and as you mentioned, almost 30% growth. And the expectation is to grow even faster in FY 2023. So Q4 was an incredible hiring quarter from a gross adds perspective, but it was also our lowest attrition quarter that we've seen since pre-COVID. So really pleased with the momentum that we saw in Q4 and leading into FY 2023.

A

Peter Burkly

Analyst, Evercore ISI

Great. That's helpful. And just maybe if I could just sneak one more in here, obviously the expansion within customers is really impressive. You're seeing more customers adopting more and more products, which is great. Curious on the net new customer adds side. Are you seeing customers sort of land adopting maybe two, three products or is the dynamics not changed that much, meaning blends are still relatively small and then grow from there?

Q

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

Yeah. It's really a mix. As I mentioned in the prepared remarks, I know – I mean it was an incredible expansion quarter for us but we also – it was the largest number of new logos that we've ever added as well. And so it was a really nice balance of both.

A

And we see customers land with one application or with multiple applications. More than 70% of all of our customers have two or more products and so that continues to be a big reason that customers are selecting us. 8

of our top 10 deals in the quarter were multi-product as well and so we're seeing a really nice mix, whether they're landing with one product or landing with multiple products.

Peter Burkly

Analyst, Evercore ISI

Q

Awesome. Helpful and congrats again.

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

A

Our next question comes from Michael Turrin at Wells Fargo followed by Alex Zukin at Wolfe.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

There we go. Hey, thanks. Appreciate you taking the question and congrats on another major milestone here.

Dominic, we know these are three to five-year deals. We just talked about the expansion rates you're seeing with larger customers. Can you just talk about the visibility that provides in this model and maybe your framework and philosophy around guidance given the degree of visibility you might have with some of those larger customers?

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

A

Yeah. So, as I talked about the business as well, 98% subscription recurring revenue, ratable revenue recognition which provides us a lot of visibility. Going into a period, we have more than 90% of our revenue is known and so we've got tremendous visibility into the next quarter, but also into the full year.

I would say around guidance, look, this is our first guidance out of the gate as a public company. It's also our first guidance of the fiscal year and so we want to make sure that we're putting out numbers that we feel highly confident about hitting and then have the ability to increase our numbers throughout the year as we see how our performance unfolds.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

That's helpful. Just if I could sneak in just a quick follow-on, on the margin side, I mean what stands out is the head count that you showed relatively flat on where you ended fiscal 2020. So are there efficiency gains you'd flag that give you confidence in the longer term margin structure of the business given the trade-offs you're making towards growth currently? Thank you.

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

A

Yeah. I mean we are seeing incredible leverage across all of our functions. So, all the way up to gross margin, we improved by 2 percentage points year-over-year. Sales and marketing, R&D, G&A, we're just getting more efficient, we're more productive. And I think a lot of that is being driven by just our leadership position within the market, decreasing sales cycles, increasing win rates and that is providing a lot of momentum in the business and a lot of leverage that we expect to be able to continue to show period-over-period.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Thank you.

Q

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

Thanks, Michael.

A

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Our next question comes from Alex Zukin at Wolfe followed by Kash Rangan at Goldman Sachs.

A

Alex Zukin

Analyst, Wolfe Research LLC

Perfect. Hey, guys. So maybe just the first one for Sanjit. As investors think about Samsara maybe two to three years out, what's the right way to think about that product mix from an ARR perspective in the sense of if I think about a product that may be – or set of products you're incrementally most excited about, do you see a Samsara where it's a third, a third, a third at some point? And kind of what are the products that you think get you there?

Q

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

Alex, I think what we're most excited about is this platform. We're trying to give our customers full visibility over their physical operations, so that means connecting those fleet assets, giving them visibility over safety, but also, their equipment and their sights and more. So, the way that I think about it isn't so much about one application versus the other. It's about enabling that entire platform.

A

The market that we're serving with telematics and safety is very, very large. If you think about the TAM there, it's \$55 billion and it's growing 20% year-over-year. So, we want to make sure that we continue engaging with customers and expanding the deployments and getting more folks on the platform.

On the equipment side, as Dominic mentioned, we had a great quarter for connected equipment. It is our best quarter yet. So, that is an application that's also growing very fast. But it's just everything's trying to kind of keep up with the growth there. So I don't know that you'll see the mix significantly change, but you should see this growth rate sustain, and that's really where we're focused, and then thinking about new applications that we can layer on top and add on to this platform over time. So in the limit, Alex, I would say that you should expect us to see – to ship multiple applications to these customers, not just two or three.

Alex Zukin

Analyst, Wolfe Research LLC

Perfect. And then, Dom, maybe for you, a two-parter, just if I think about pipeline construction as you look into fiscal 2022 versus – or calendar 2022 versus prior year at the same time, what are some of the – like if we think about growth limiters, whether it's quota carriers or supply chain or any other elements just to keep in mind as you see this opportunity set in front of you?

Q

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

A

I think that at this time, now versus where we were a year ago, we obviously were coming out of COVID coming into calendar year 2021. And so, I think we have a lot more visibility and momentum behind us and a lot more confidence that customer demand will continue to be there now that we're kind of six quarters beyond that kind of initial impact. And so, we feel really good about the pipeline as we go into FY 2023, which is – and this is – again, it's a direct sales model, subscription business, direct sales.

And so, one of the limiters is sales capacity, which is why we've really started to reignite that hiring engine in FY 2022 and in particular, in Q4 and we expect to push that momentum into FY 2023, bringing on more capacity, and then, again, this is a sales model that requires the capacity to ramp over time. And so, we're excited about that new capacity coming on this year.

Supply chain is also a constraint as we're navigating through this disruption. We've been able to stay pretty nimble and we've been able to successfully find enough IoT devices to meet all of our customer demand, but it's something that we are monitoring and it's still a potential headwind as we go into FY 2023.

Alex Zukin

Analyst, Wolfe Research LLC

Perfect. Thanks. Congrats, guys. Great job.

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Our next question comes from Kash Rangan at Goldman Sachs, followed by Derrick Wood at Cowen.

A

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Can you guys hear me okay this time?

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

That's great, Kash.

A

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Perfect. Perils of driving and getting disconnected from the Connected Operations Cloud quarterly earnings conference call. [indiscernible] (40:30) I'm actually driving. And anyway, so I want to say congratulations on your first quarter as a public company.

Q

One question for Sanjit, as you look at the – the market is – one can make the market out to be fairly horizontal. It's more of a Ctrl-C, Ctrl-V, just expand deployments. But part of me also thinks that there is a product roadmap here. There's a technology story here. As you listen to your toughest customers and the ones that are going to be leading you on to a bigger and bolder opportunities, what are you hearing, Sanjit, as to the next generation of problems that present opportunities that could help you materialize the TAM to a greater degree than what you can do with your current product? And probably then I have one follow-up question for Dom. Thank you so much.

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

A

Sure. So, Kash, I love the question. What we hear from customers is they're excited about the data and the value that data unlocks for them. So, once they can see not just their GPS locations, but their safety profiles, how their equipment is performing, how they're doing in terms of compliance on the cloud, they start to see ways to connect that data to other systems.

So, we have customers sharing this data with their insurance providers, using it for payroll. We see all kinds of interesting integrations. So, we have over 155 integrations on our app marketplace and that's a number that's been growing year-over-year. And when I talked to our largest, most challenging customers, they're trying to find more ways to leverage that data. And so, part of that is about getting more data into the cloud.

So, the connected sites offering is a great example. They want data about their loading docks and their factories and their warehouses and their remote sites. And so, that's one area that we've been investing is connecting more data into the Connected Operations Cloud.

And then, the second area is around integrations and finding insights in that data, so training AI models, looking at even more video, I think I talked about a number, 85 billion minutes of video on the cloud. We're able to find deeper and deeper insights in that that helps provide risk insights, utilization insights and so on. So, those are the two categories. I would say it's getting more data in the cloud and then unlocking more insights from that data and that's an advantage that's compounding for us the larger we get in terms of scale.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Wonderful. Thank you, Sanjit. And one for you, Dom, as you look at your sales productivity models, clearly the market opportunity is big and value proposition is very clear. You're getting 50-plus percent of your net new ACV back to the base, great [indiscernible] (42:52) rates. Could the productivity get even better as high of an expectation that could be?

And couple that with your sales hiring in fiscal 2023, could we be, I dare to use the word reacceleration, at a point where the business could reaccelerate based on, if then, certain things that happen subject to those conditions? Thank you so much and congrats.

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

A

Yeah. I mean sales productivity or kind of net new ACV per sales rep or per [ph] ramp up (43:20) is one of the key metrics that we track internally. And as that is moving up as sales reps are becoming more productive, that gives us a lot of confidence that we can go out and add more capacity into that model, and that is what we've seen since coming out of COVID as productivity has continued improving. And you can get a sense of that by just looking at our ARR per employee has continued to move up. And so, which is – it's a reason we are going to add capacity.

And to your acceleration point, our overall head count grew 30% – almost 30% year-over-year in FY 2022 and we plan to grow overall head count by more than that in FY 2023. About half of our total employees are in our sales and marketing organization and I would expect that to be the same case as we move forward into FY 2023.

So, to that point, yes, I do think that the overall hiring will accelerate.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Brilliant. Thank you so much.

Q

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

Thanks, Kash. Our next question comes from Derrick Wood at Cowen, followed by Matt at William Blair.

A

Derrick Wood

Analyst, Cowen & Co. LLC

Great. Thanks. Maybe – and congrats from me as well. I just want to stay on that line of thinking on the sales capacity and what's been impressive is that you guys have been fairly constrained in capacity over the last year and yet, you're hitting these great growth numbers, you're landing record new customers. Just I'm curious what are the drivers behind the improvement in productivity? Is it partly because of just the growing demand out of the market?

Q

And how much benefit have you had from – I think you guys were not as well-known and you had to kind of push your way into deals and now that your brand awareness is better, you're getting pulled more into RFPs? How much is that a factor?

Dominic Phillips

Chief Financial Officer & Executive Vice President, Samsara, Inc.

Yeah. I do think that Samsara has been selling for six years. We're founded in 2015, so we're a seven-year old company. And as we mature, as we went through the IPO, a lot of these things are really tailwinds to us. We are taking more market share. We are – it used to be the case or maybe we wouldn't know about a deal or we'd get into it later. Now, that rarely happens. We're in all of the RFPs and our customers are aware of us, industry analysts are more aware of us. And so, that is definitely helping us with win rates and sales cycles, which is definitely contributing to the overall productivity improvements that we're seeing.

A

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

Yeah. And if I can just add one thing, I would say we also have more people in industry practitioners who are familiar with Samsara who are recommending us to their peers in the industry, so we get more referrals as well. So, I think that's just something that time sort of yields for us.

A

Derrick Wood

Analyst, Cowen & Co. LLC

Makes sense. And a question for you, Sanjit, I mean, you guys can serve ESG initiatives, I mean, cutting carbon emissions with more efficient fleet operations. Just curious, how often is ESG a driving force behind a company investing in Samsara versus being a nice derivative benefit? And do you see ESG becoming a bigger force of adoption, whether it be electrification or other new kinds of use cases that could be more of a driver?

Q

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

Yeah. Derek, I think you put your finger on it. ESG is becoming more front of mind for our customers, especially in the large enterprise. So, we are starting to see the data from the Samsara platform appear in ESG reports, as

A

many of our customers are trying to quantify their carbon emissions and figure out how to hit their targets. We are seeing customers make that transition to electric vehicles. That is a macro trend that we've been preparing for and building tools for. And there, you'll see us working with state and local governments, which is, I think, where we kind of start a few years ago, but it's starting to occur across all these different vertical industry segments. So, those are both there on the sort of environmental side.

And then, we are also seeing a lot of interest in workers' safety. That is something in the world of physical operations. It's very front of mind for our customers. Our AI models that help keep drivers safe on the roads is being really well received and as part of that broader kind of ESG stance. So we are hearing it a lot, especially in large enterprise, and we're also living it ourselves. So, you'll see an ESG report coming out from us in a few months. And so, ESG very much is a theme, and it's actually always been part of our story. If you think about the mission of the company, we're helping drive safety, efficiency and sustainability. And so, we're excited to embrace that ESG trend and believe this data and these tools will really help.

Derrick Wood

Analyst, Cowen & Co. LLC

Q

Great. Congrats.

Operator: Our last question today comes from Matt at William Blair.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Yes. Thanks for taking my question. Just wanted to ask one on the business' sensitivity to the price of oil, so with oil prices continuing to increase, obviously, it improves the ROI that your solution provides your customers. But does that influence demand? Do you see a spike in demand at periods of time where oil prices are on a rapid rise like they are now?

Sanjit Biswas

Co-Founder, Chief Executive Officer & Director, Samsara, Inc.

A

Matt, I would say – this is Sanjit. We don't see our demand directly correlated or connected to the price of oil. Now fuel spend has always been front of mind. It's an operating expense that – and also a carbon emissions area that our customers would love to reduce. And so, we have a lot of tools to provide deep insights into benchmarking of how you're performing, how much fuel you're using, that sort of thing. So I do think as the price of fuel and oil in general increases that our customers are going to use this data more heavily to reduce their footprints. But it's not something where we see more telematics product or less telematics sold in conjunction with the price of a gallon.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Great. Thanks, guys.

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

A

Thanks, Matt.

Mike Chang

Vice President, Corporate Development & Investor Relations, Samsara, Inc.

So, this concludes the question-and-answer portion. Thank you all for attending our Q4 fiscal year 2022 earnings call. It was a great conversation. This past quarter, we capped off a very successful year for the company and reinforced the strength of Samsara's connected operations cloud and continued customer momentum. We're only getting started and we look forward to updating you on our progress as we pursue the big opportunities that lie ahead.

Before I let you go, I have a few short announcements. First, we'll be attending the Morgan Stanley Technology, Media and Telecom Conference in person on March 7 and the Wolfe Research Software Conference virtually on March 22. So, we hope to see you again at one of those events. Second, we are hosting our inaugural Investor Day on June 14 in San Francisco. Please send an e-mail to ir@samsara.com if you're interested in attending in person. For those that prefer to attend virtually, our IR website will have a link to the live webcast.

That's it for today's meeting. If you have any follow-up questions, you can e-mail us at ir@samsara.com. Thanks again. Bye, everyone.

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