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Samsara, Inc. (IOT)

William Blair Growth Stock Conference

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CORPORATE PARTICIPANTS

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

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Matthew Pfau
Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Matthew Pfau
Analyst, William Blair & Co. LLC

All right. Great. Thanks, everyone, for joining us today. I am Matt Pfau. I'm the analyst that covers Samsara at William Blair. For a complete list of our disclosures, you can visit williamblairl.com. Today, we have with us Dominic Phillips, the CFO of Samsara. Very happy that you're here.

QUESTION AND ANSWER SECTION

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

I think a lot of people are probably familiar with the business, but just in case they're not. Maybe we'll just start off with a high level overview of what Samsara does, who you are.

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

A

Sure. So Samsara was founded in 2015, so we're in our seventh year of selling. But we are effectively connecting this world of physical operations to the cloud. And our customers are – industries that have been very underserved by technology for many years. So energy, utilities, construction, transportation, logistics, manufacturing, etcetera. These are really large markets, very underserved by technology. They make up 40% of global GDP.

So those are the customers that we're serving. And the solution is effectively collecting a bunch of data off of physical operations assets and sending it to the cloud. Last year, we collected more than 6 trillion data points. And then with that data, we've – now for since the founding, we've layered on a number of kind of smart technologies like AI, and we ultimately surface actionable insights and analytics for these customers to change the way that they run their business. They want to operate more safely. They want to operate more efficiently and increasingly meet sustainability goals.

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As I said, founded in 2015, we went public at the very end of 2021. We just had our Q1 earnings call last week. It was our sixth public earnings call. We are a little over $850 million of annual recurring revenue of annual recurring revenue growing more than 40% a year and on track to be free cash flow breakeven by the end of this year.

Q

Great. And so I think when a lot of people think about connected fleet or telematics or video safety, they're usually sort of defaulting to thinking about long haul trucking and transportation. But your business is much more diversified than that. So, maybe just be helpful to talk about what type of customers do you target? What is your end market exposure look like from a customer perspective?

A

Yeah. So, I think that's right. There's this, this view that somehow if you're, if a core asset is a vehicle that somehow that equals the transportation vertical but in actuality, if our ARR comes from non-transportation. Verticals, I mentioned a few, a few of them upfront. I think a little more than 20% of ARR is core transportation where the company's business is transporting goods from point A to point B for – on behalf of another customer. But the majority of our revenue comes from – and it's very, it's very diversified across these of the construction, agriculture and utilities, energy and so on.

And even in Q1, only 17% of the net new ACV, the new bookings in Q1 were into the transportation segment. So, the overall mix is arguably even coming down over time as we become a larger company. I think it's also important to call it that even within these different industries, we tend to service mid-market and enterprise customers. About 54% – 49% of our ARR comes from customers that pay more than $100,000 of ARR. And so even within these verticals, we're really focused on on the larger enterprises.

Q

And when those customers adopt your products, what are the main pain points they're trying to solve? What's the key customer value proposition that you're selling them?

A

Yeah. So I think this is a very value centric sales motion, very ROI focused selling motion. And so there are really kind of three primary customer use cases. The first is really around safety. So customers will adopt Samsara and they want to lower their accidents, they want to improve their driver or worker behavior to be more safe, they want to lower their insurance premiums. This is also really big efficiency play. So how can we help them lower their fuel costs or their maintenance costs? How can we help them better optimize the their routes so that they can provide better ETAs to their customers? How can we help them improve their asset utilization?

And then the third use case is really around – increasingly around sustainability, a lot of ESG focus within our customer base. So helping them lower – reduce their carbon emissions, helping them transition to electric vehicles and increasingly do things like report out on their ESG metrics.

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Matthew Pfau
Analyst, William Blair & Co. LLC

Q

And on this value you're providing customers, are they hard dollars? Are you able to quantify them? And how has that perhaps enabled your business to hold up better than other software companies in this environment?

A

Yeah, absolutely. So I think one of the advantages that we have and really in any economic environment, but in one where there's a lot of volatility is there is real hard ROI savings. And a big part of our selling motion is there's generally a free trial or a pilot period where customers will deploy our technology across a small subset of their assets and they will collect data over a period of time. Then they will come back and extrapolate that over their broader set of operations to really understand what they can expect in terms of savings.

It's a different buyer than a lot of software companies are selling into the CIO and to the IT budget, but when you're selling into the world of operations, lower margin businesses really aligning on the ROI upfront and really proving out that with this technology they will save money is a really important part of our selling motion.

Q

And there are a bunch of other companies trying to address the connected fleet segment in various ways. Maybe just talk about why is Samsara winning? What is differentiating you versus some of those other companies that are out there?

A

Yeah. The competitive landscape is very fragmented. I think about Samsara competing on multiple vectors. So, we sell into kind of midmarket and enterprise customers. We're selling into many different geographies. We're selling into a wide set of end markets, as I discussed up front. And we are connecting many different types of assets to the cloud. And so, across each of those different vectors, we see a different set of competitors. But I think the real reasons that we've had a lot of success and have executed well, the first is really around just the overall size of the data, the data assets that we've accumulated.

We, as I said, have collected more than 6 trillion data points annually. And with that data, we're able to provide more unique insights and more action – actionable changes for our customers. And that becomes a flywheel. As we get more customers, we collect more data and we can – I'm sure we'll get into AI, but we can better train kind of our AI models and ultimately provide more value. So, there's a huge differentiator, the breadth and scale of this data asset.

The second is really this is an enterprise-grade solution which has taken a lot of investment both on the R&D and on the go-to-market side. But it's scalable, it's secure. We've got a very robust application marketplace, more than 230 integrations, which is very important for large customers. We have a robust partner ecosystem. And the third, I think, real competitive advantage versus some of the legacy incumbents is that the product just works really well. It's very easy to use. You can get up and running within minutes. You can install the solution, start connecting your assets to the cloud and really start making changes to the way that you're running your business in a very short period of time.

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You don't need professional services. You don't need to hire system integrators to come in and do a bunch of consulting work for you. We don't really have professional services revenue or costs. It just works out of the box. It's very plug and play.

Q

So let's talk about the connected fleet market a little bit. Telematics has been around for a while. Video safety much newer. Where are we at from a market penetration perspective, and are most of your wins displacing a competitor, or are you seeing more greenfield opportunities?

A

Yeah, I think I just want to preface it with the fact that about 75% of our customers are multiproduct customers. They adopt multiple products. So it's very rare that one – that a customer will buy only telematics or only video-based safety or only equipment monitoring outside of the vehicle.

One of the big reasons we're winning is because customers are adopting multiple products. And so, we can talk about the individual markets. But I think that that point that our customers are adopting multiple products is really important. The telematics market in some form has been around for decades.

And the core – one of the core features of that is GPS which has been – which has, obviously, been around for decades. The overall telematics market has grown and changed. And we've added a lot of features and functionality that are very different than some of the legacy incumbents. Just within the US, like 40 to 50% of commercial vehicles have some sort of connectivity of their vehicle to the cloud.

And so there are a lot of replacement opportunities for us within the market. But increasingly, these assets in vehicles are being prebuilt with connectivity, and we think that that – we've seen and we think that will continue to be a big unlock for further penetration just within that market. If you can send your – if you can collect your telematics data directly from a cloud versus having to install a gateway, that – that's a pretty big unlock.

Video-based safety, on the other hand, is a much newer product category. It's actually been around for the last kind of – at this kind of scale and size, in the last kind of five years. If you look at those same commercial vehicles in the US, less than 5% of them have video-based safety. And if you just think about the tailwinds of technology around 4G and 5G and HD camera technology and the chipset and the processing power in AI, a lot of these technologies are newer in the last five years which have really allowed that market to take off. And video-based safety is actually our largest product category today even though that's not where the company started.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

You mentioned most of your customers are taking multiple products. Some of those wouldn't fit under that either telematics, video safety umbrella, the connected fleet. There's a lot of activity outside of that. Where do you see the most opportunity there outside of the connected fleet products? Where are you seeing the best uptake?

A

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Yeah. And so I think it's important to know that our core – one of the key drivers of our product road map is really customer feedback. We've spend a lot of time with our customers, and we get feedback from them, and they really tell us where their pain points are. And then, we collect that and use that to drive our product road map. And what we heard from customers that operate commercial vehicles in all of these different industries is that they want visibility into their non-vehicle assets on the same platform, and so the third product category at scale is what we call equipment monitoring which is – ranges from unpowered equipment like a dumpster or a trailer like a dumpster or a trailer, all the way to kind of heavy-duty powered equipment, like a crane construction-related equipment. As we just announced on the Q1 earnings call last week, that set of products, that product category, is now at about $100 million of ARR. And so we now have three product categories, telematics, video-based safety and equipment monitoring, some vehicles, some non-vehicle, that are each at or above $100 million of ARR that are all growing more than 30% of the year. So we've got many different ways to land within the customary. We have many different ways to expand. But more so now than ever, customers are adopting Samsara across a broad set of their operations versus specific point solutions within a given set of assets like a like a vehicle only.

Q

Great. Yeah. I remember when we were doing the due diligence for your IPO, one of your customers rents cranes, and they couldn't even track down where their cranes were before using the connected equipment, which I don't know how you lose a crane, but they would. So in terms of larger customers, you've been seeing a lot of momentum there. Maybe just discuss why you're seeing traction with larger customers, what's resonating about Samsara's platform with them.

A

Yeah. So it's increasingly clear to us that Samsara is purpose-built for large – the largest customers with the – with complex operations because that is where the largest ROI opportunities are. That's a great example of someone like losing crane. These customers are spending so much money on their operations and on these assets and they're still not adopting and using technology in the way that the IT world is or that we have adopted in our consumer lives. And so there's really this big opportunity to deploy technology to help these customers save money.

We now have 1,375 customers that pay more than $100,000 of ARR a year. That's up more than 50% year-over-year. We have more than 50 customers that pay more than $1 million of ARR a year. And these large customers now contribute 49% of our ARR, about half, and that's up from 40% two years ago. We've made a lot of investments on the R&D side to make our products and our platform scalable and secure and to make sure that we have thorough robustness of integrations that are required to compete in these markets. We've made a lot of investments in go to market presales, attracting and recruiting, high quality enterprise sales reps having building up the partner ecosystem and having the right customer support and customer success required to really serve those customers. These investments have taken place now over years, and we're gradually seeing the benefits of those investments and some of the metrics that I mentioned earlier.

Q

Okay. Let's move on to AI and big topic recently.

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A

We talked it into like the sixth question.

Q

They didn't want to leave with it. But so, it's been a big focus recently. You all have been doing AI for a while. Video, safety you mentioned your largest product with – by ARR. Maybe just discuss, you know what you're doing with AI? What's your differentiation? Why is it difficult for competitors to replicate?

A

Yeah, I think what stands out for us versus maybe some others that we've been investing in AI, it's been a core part of our platform from the beginning. We have a very large data scientist team internally, and we're using it to drive a lot of value and insights for customers. I think a few things really stand out for us. One is the size of the data asset that we have in the breadth and the scale. As I mentioned, different customer sizes in different end markets, in different geographies and many different types of assets allow us to train models and deploy and provide actionable insights that really allow customers to save more money and realize more value. So that's a really big differentiator for us.

The second is really just the data infrastructure that we've built. It's one common data platform across all of these different types of assets which allow us to train models and deploy them at the edge in a way that would be very difficult to do if you were kind of cobbling it together and bringing it together in a more ad hoc way. And the third thing that really stands out is that we're, again, really using customer feedback and specific use cases to drive our AI road map. And so we will continue to listen to customers and really deploy AI in a way that meets their specific use cases versus deploying it in kind of a more broad way. And so I think those things really stand out. But it's been – it's something that we've been very focused on and it will continue to be a core part of our offering going forward.

Q

And within the customer base, how do you think about the cross-sell opportunity there? I think you have now over 50 customers with $1 million in ARR. Are there other customers within your base that could be $1 million? And those ones that are $1 million, could they be $10 million at some point? How do you think about that?

A

Yeah. I think our overall expansion mix has increased over time. We just said in Q1 that 60% of our net new ACV came from expansions for existing customers and only 40% from new logos. That was probably flipped a couple of years ago. And I think as we've moved more upmarket, these customers tend to buy and expand over time. They will do a broader rollout of their existing products across a broader set of assets, and they will cross-sell into new product categories I mentioned that many of our customers are multi-product customers. But increasingly, as we move more – market more of our net new ACV is coming from expansions into our existing customers. And I do think that for the majority of our customers, we're really just kind of scratching the surface and there's still a lot of opportunity to grow those into much larger customers.

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We added a record number, 138 new, $100,000 plus customer additions in Q1. More than 70% of those customers were already existing. They started below $100,000 and moved over in that, and that is very common. We have more than 50 customers paying more than $1 million today. I think in the future that there's no reason that won't be hundreds of customers. When I think about our largest customers today, I think that if they went wall to wall across all of their assets and all of our products that they could be many multiples of that.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

And you just reported results last Thursday. It seems like the market liked it. Anything you'd highlight from the results that you think people should know?

A

I would just say that the customer demand tends – it continues to be very strong. I think we are unique from other technology companies and we have a few kind of key advantages. I think one important thing to note is that we are a subscription business model. It's not perpetual. It's not consumption. 98% of our revenue is subscription. And even within the subscription business model, we're not tied to head count. We're tied to the number of assets that customers have.

So in an environment where head count may be being reduced within some of our customers, their overall assets are not and that has provided a lot of reliability and predictability of our revenue, which is allowed us to better set expectations externally. I think as I've – as we've talked about, we are selling into an operations budget which is very different than a lot of other software vendors. We don't sell into IT or into the CIO. It's a very large We don't sell into IT or into the CIO. It's a very large and robust and resilient budget for our customers. And I think that that definitely stands out. It's also less competitive. The CIO probably has hundreds, if maybe not thousands of vendors calling on them trying to access that budget. The number of software vendors selling into the operations budget tends to be smaller and less competitive. And then we've talked a lot about the hard ROI the fact that we can prove that you are going to save money and lower your costs and potentially also improve your revenue and the payback period on your same-store investment can be returned within months versus needing to go hire a large system integrator to implement this in your waiting year or plus to ultimately realize value, I think have allowed us to continue to operate well. And you saw those results in Q1.

Q

Okay. One thing I'll throw out there from the quarter is your net new ARR growth accelerated year-over-year. Maybe just talk about what drove that head count productivity mix. What did you see there?

A

Yeah, a lot of it was driven by just productivity and I think that stems from the customer demand that I, that I mentioned but our net new ARR added in Q1 grew 24%. And the net new ARR growth in Q1 of last year was 20%. So, faster growth at a larger scale definitely stood out.

I think again, it was a record quarter in terms of 100,000 plus customer additions. So a lot of large customer momentum. We talked about it was a really strong expansion quarter, 60% of net new ACV coming from our

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existing customer base and 70% of the 100,000 plus additions were expansions. And then we operated really well across some of our new frontiers. Record 17% of net new ACV came from non-US geographies. Sorry, 15%, 17% only in transportation and the remaining 83% from non-transportation industries. So, a lot of the new frontier success as well.

Q

And I think one of the things that has really impressed people this year is not only have you continued to grow quite fast, but also really improved the profitability profile and you came pretty close to hitting breakeven free cash flow this past quarter. You're committing to hit breakeven in the fourth quarter. Talk about where the leverage in terms of getting there is coming from and how you're ramping up profitability while still growing at such a rapid pace.

A

Yeah. For us, it's really a focus on balance. We want to continue to sustain high levels of growth, but we want to do so more efficiently. We really think about this balance of growth and profitability and an easy, simple framework to measure that is rule of 40. And we're proud that we were able to achieve rule of 40 or better for the third consecutive quarter. And that's something that we will probably continue to think about going forward.

But we are seeing leverage, frankly, across the entire business. Our gross margin is kind of roughly in line with our target model, and we've done a lot of good optimizations around our cloud costs, our cellular costs, our hardware costs have obviously come down as the supply chain has improved. A lot of the leverage has come from and will continue to come from sales and marketing. The cost of sale for a customer that is being renewed versus when we first landed them is much less expensive and more efficient, like a commission rate on a dollar renewed is much lower than on a new logo or an expansion.

And we still have a lot of the ARR that is – that will renew over the next few years. I think we'll get a little bit more leverage out of R&D as we continue to scale up these large products. And then obviously, G&A as was the largest area of year-over-year leverage and a lot of that was driven by the – costs don't increase as much in year two, and we got a lot of leverage out of that. So that really helped us. On the operating margin side, we improved operating margin by 9 percentage points from Q1 to Q1, but then we continue to see working capital improvements as well. And so the supply chain was much more of a headwind a year ago than it is now. And our ability to procure components and build these devices is just much more efficient. And our things like cash collections have definitely improved. And so we're seeing these working capital benefits that have allowed us to get really close to free cash flow breakeven and we're on track to be able to do that by the end of this year.

Q

Once you get to breakeven free cash flow or positive free cash flow, how are you going to think about running the business from a balancing growth and margin improvement perspective?

A

I think we really want to – we really want to get to this milestone. I think we'll come back with a more kind of robust framework of how to think about it going forward. But I think you can just see in some of the language and metrics

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that we've shared around Rule of 40 that really balancing growth and profitability really matters. Getting to free cash flow positive is really is really important milestone for a variety of reasons. And so that is a near-term goal. But beyond that, we are operating in really large markets that are growing very quickly. We have a market-leading position and we think that we can drive sustained high levels of growth. We think that growth is going to be very durable. And so we would like to continue to grow as fast as we can while operating within these kind of currency framework. So I think you can expect us to continue to drive growth, but maintain the efficiencies that we've been able to show over the last few quarters.

Q

All right. I'll see if anybody has a question out there. Otherwise, I'll keep going.

Q

[indiscernible] 00:25:35-00:25:41?

A

I would just – we size this market. I mean, just within connected fleet, it kind of being roughly $30 billion today, going to roughly $50 billion over the next few years for a lot of the digitization points that I made earlier. And obviously, we're 850-plus-million dollars of ARR. So we're still single digit market share within core product categories. And as I said, it's a very – it's very fragmented.

There's not like a clear number two competitor that we see consistently across different geographies and different product categories and different customer sizes. We see a wide range of different competitors.

Q

Anyone else?

A

90% to 95% of our business is direct. I don't expect at least in the near term that we're going to really get much leverage out of the channel. And I think what we've realized is that for us, selling into these customers, having that direct customer relationship is critically important, especially as they expand over time and we're able to provide more value to them having that direct relationship.

And a lot of these customers, again, being very underserved by technology, we partner with them on kind of envisioning like what this could look like over time. Having that relationship with them directly is really important to be able to kind of paint that picture and work with them on that journey versus kind of pushing out individual products through a channel partner is not likely to be an important part of our business in the near term.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Maybe I'll ask it in terms of OEM relationships, are those important? Do you partner with OEMs?

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

A

Absolutely. Yeah. So I think we have an app marketplace with more than 230 integrations across a bunch of different types of partners and one of which is OEM. So increasingly, these assets, whether they're vehicles or field assets, are being built with – being prebuilt with Internet connectivity. And we've built a number of integrations with these asset OEMs that allow us to get the customer data into our cloud through an API integration versus needing to provide them a device to send the data that's trapped on the asset to the cloud.

The usability and the value to the customer is no different, whether the data is getting into the Samsara cloud through a Samsara gateway or camera or an OEM partnership. And so we think increasingly as these assets are being prebuilt with connectivity, that that is an opportunity to really grow that penetration. As I mentioned, the telematics market, like 40% to 50% of it, is penetrated today but we think that that can increase further with things like prebuilt Internet connectivity from OEMs. So having those partnerships is really important.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

I'm going to ask one more. What are you doing with electric fleets? Do you provide solutions to help manage them, and are you seeing interest there?

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

A

Absolutely. A lot of our customers have stated goals, especially in like public sector and municipalities, so transitioning their vehicles from combustion engines to electric vehicles. And they use a lot of our data to determine how to do that and in which order in terms of carbon emissions and different kind of routing and vehicle type. And they can use a lot of our data and reporting to make that transition over time.

Matthew Pfau
Analyst, William Blair & Co. LLC

Great. I think we're about out of time. So, appreciate everyone coming and there will be a breakout session upstairs. Thanks.

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

Thank you.

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