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Samsara, Inc. (IOT)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Michael Chang

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

Good afternoon and welcome to Samsara's Second Quarter Fiscal 2023 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 on 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 and are subject to risks and uncertainties described more fully in our SEC filings. Any forward-looking statements that we make on this call are based on assumptions as of today, August 31, 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, [ph] some of our (00:57) discussions will include our second quarter fiscal 2023 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'll discuss today are non-GAAP, except for revenues and revenue growth. Reconciliations of GAAP to non-GAAP financial measures are provided with a press release and investor presentation.

We'll make opening remarks, dive into highlights for Q2, and then open up the call for Q&A. With that, I'll hand over the call to Sanjit.

Sanjit Biswas

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

Thanks, Mike, and thank you, everyone, for joining us today. We delivered another strong quarter, surpassing \$660 million of ARR, growing more than 50% year-over-year. We continued our large customer momentum and ended Q2 with nearly 990 customers with ARR over \$100,000.

While we saw strength in the business, we recognize that Samsara is not insulated from the current macroeconomic environment. Throughout the quarter, customer demand remained at historically consistent levels, but we saw elongated sales cycles compared to periods of stronger economic growth. Despite macroeconomic headwinds, we continue to see strong demand because of three core themes.

First, our customers are the critical infrastructure that power the global economy. They span diverse industries that include some of the largest food distributors, chemical companies, energy utilities, freight carriers, and municipalities. Many of them have been around for over half a century and have survived challenging economic cycles.

Second, our customers are challenged with rising inflation and interest rates, disrupted supply chains, tight labor markets, and geopolitical risks. They need solutions that provide a rapid return on investment. Samsara's Connected Operations Cloud is a deflationary lever that helps our customers control costs by running smarter, safer, and more efficient operations.

And third, Samsara is becoming the system of record for physical operations. Customers are using our cloud as the command center for their day-to-day operations. At Samsara, we focus on building relationships with our customers, solving their problems, and delivering a great customer experience. At the center of this process is the Samsara customer feedback loop, where we listen and respond to their greatest needs.

In Q2, we hosted our inaugural Samsara Investor Day and our first customer conference, Samsara Beyond. We brought hundreds of our customers together to discuss the future of physical operations to learn from other customers about how they can use our Connected Operations Cloud to unlock value for their businesses and to network. Many of them shared what a unique and beneficial learning experience it was for them to connect with other operations leader digitizing their businesses. So we're excited to make this an annual event.

During the conference, we also celebrated the Connected Operations Award winners. These awards recognize the organizations that have transformed their operations and are seeing tremendous ROI. As you can see from this list, there's a lot to celebrate. Let's double-click on our Digital Transformation of the Year award winner, Artera.

For context, supply chain shortages mean that our customers have to do more with less. Trailers are hard to come by and industrial equipment is expensive. We use data to provide visibility into existing equipment and assets so customers can control their costs and optimize usage. Many of our customers haven't had access to this kind of data before. Artera is a leading provider of critical infrastructure services. Our Connected Operations Cloud help them identify inefficiencies in their equipment usage, unlocking \$10 million of cash flow to invest in priority areas.

In addition to helping Artera unlock efficiencies, our Cloud increased the safety of their operations. Samsara helped them decrease accidents by 40% year-to-date. Artera is just one of many outstanding examples of the power of digitization. Customers across industries and geographies are achieving amazing things with their

Connected Operations Cloud. Our customers know they have to continue investing in digital transformation. It is a proven way to fight inflation. Our offerings are becoming a must-have for companies looking to streamline their operations, reduce their cost stacks, and gain more visibility and control into their operations.

Let's look at ArcBest, who are using our cloud to streamline worker productivity. ArcBest is the 14th largest for-hire fleet in the United States, with over 2,700 city vehicles and over 7,000 drivers. With Samsara, they've integrated data from multiple platforms, improved their safety program, and have next level of visibility into their operations. They use our open API to create a custom integration that reduce time spent managing unassigned hours of service by 50%.

Here's another example of driving operational resilience. One of the largest school districts in the State of Georgia improved their asset and fuel efficiency with Samsara. They serve over 180,000 students in 141 schools. Safely transporting students to and from school is a top priority. Using Samsara's vehicle telematics and several integrations to manage bus routes, they made their buses more punctual. They have over 2,000 buses, and now they're also monitoring vehicle diagnostics like tire pressure and idling and accessing Samsara's fuel reports to save money.

In these two examples, we shared how Samsara's Connected Operations Cloud improves the efficiency and sustainability of operations through better data visibility. We're also investing in digitize the worker experience by eliminating inefficient pen and paper processes, streamlining the user experience, and delivering solutions for the modern workforce.

For example, Superior Plus Propane is enhancing safety workflows to save lives. Superior is a leading US propane distributor serving 24 states with 2,300 trucks and more than 1,000 drivers. Within just six months of installing the AI dashcams and launching our video-based safety coaching programs, they achieved a 90% reduction in speeding. And on top of that, Superior has seen a 52% reduction in on-the-road accident costs and a 50% reduction in rollovers.

Our customers are competing in a tight labor market, and our platform gives them a competitive edge in attracting, onboarding and retaining workers because we provide easy-to-use tools that are in line with the modern technologies they use every day. We're doubling down on transforming the worker experience with innovative new features that simplify day-to-day tasks, keep workers safe, and ultimately make their workplaces more connected.

This quarter, we announced a number of new product features, including customizable driver workflows, in-cab nudges, multi-stop ETAs, and remote support for administrators to streamline troubleshooting from anywhere. We believe we're in the early stages of a large market opportunity that has been underserved by technology. We want our Connected Operations Cloud to be the system of record for physical operations. As we bring more data into our platform, we're able to provide an increasing number of actionable insights and fundamentally reimagine the way our customers do business.

Take Liberty Energy, for example, with Samsara as their system of record and our open API, Liberty Energy created a custom integration. They've connected real-time operations data from their machines to their tax software. As a result, they can more accurately represent their operations and more accurately reports to the government. Because of this one integration, Liberty Energy expects to save \$10 million every year. They've unlocked a new level of operational visibility and this single integration more than pays for their Samsara investment.

We're delivering more value for customers by creating the largest open ecosystem for physical operations. This quarter, we announced new OEM partnerships with two of the largest US automakers, Stellantis and General Motors, as well as Thermo King, a global leader in transport temperature control systems. With our increasing data asset, we're excited to scale our product offerings and double down on product innovation. This quarter, we continued to invest in our product leadership by hiring Jeffrey Hausman as Chief Product Officer from ServiceNow and appointing Kiren Sekar as our company's first Chief Strategy Officer.

Jeff's strong background in cloud operations, data analytics and infrastructure technologies will help us as we scale. Kiren has led our product team since founding. In his new role as Chief Strategy Officer, he will continue leading new product incubation and development. We're also building capacity to serve increasing customer demand. We're seeing our remote work model unlock access to the global talent pool. As a result, Q2 is also our best hiring quarter since the pandemic began.

I'd like to end with a thank you to all Samsarians, as well as our customers, partners and our investors for your continued support. We're still in the early stages of our tremendous market opportunity to digitally transform the world of physical operations. I'm looking forward to what we'll achieve next.

With that, I'll now hand it over to Dominic to go over the financial highlights from the quarter.

Dominic Phillips

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

Thanks, Sanjit. As a reminder, please refer to our shareholder letter, press release and investor presentation at investors.samsara.com for additional information on our Q2 results and financial guidance. Q2 was highlighted by strong top line growth and continued operating efficiency improvements. However, the quarter was also impacted by broader macroeconomic headwinds, which contributed to some instances of elongated sales cycles, such as higher levels of required deal approval, longer trial periods, intensified ROI validation compared to periods of stronger economic growth.

Having said that, we saw no significant change in pipeline conversion or win rates for most of our core customers, and demand remains robust. We continue to be well-positioned to directly reduce our customers' operating costs in an inflationary environment, and our results reflect the importance of digital transformation taking place across the world of physical operations.

Q2 ending ARR was \$663 million, growing 52% year-over-year. And Q2 revenue was \$154 million, also growing 52% year-over-year. Several factors drove our strong top line performance in Q2. The first of which was a continued focus on landing and expanding with large customers. We now have 989 \$100,000-plus ARR customers, a quarterly increase of 92 and an annual increase of 374 or 61% year-over-year growth.

More specifically, we saw strength within our largest customers. We ended Q2 with 41, \$1 million-plus ARR customers, a record quarterly increase of 7 and almost doubling over the past year. While the majority of these additions were customer expansions, we also landed two new \$1 million plus ARR logos who are now top 15 customers, one of the world's largest crane and equipment companies, and a top 10 less than truckload transportation carrier.

Next, multiproduct transactions continue to significantly contribute to our top line growth, showing the strength of our Connected Operations Cloud in the market. 8 of our 10 largest deals in Q2 included subscriptions to two or more products, and 5 of the top 10 deals included three or more products. More broadly, more than 70% of core customers and more than 90% of large customers subscribe to multiple applications. We're also seeing

multiproduct strength at scale. Our video-based safety product crossed the \$300 million ARR milestone and vehicle telematics ended at more than \$250 million of ARR.

And finally, while this was another strong quarter for our core products, our emerging products stood out in Q2. We saw a quarterly record, 17% of net new ACV come from our non-fleet applications, including our second and third largest equipment monitoring deals ever. In fact, while non-fleet applications are more than 10% of ARR, our customer adoption is much higher. Almost half of our core multiproduct customers and almost two-thirds of our large multiproduct customers subscribe to non-fleet products. This shows the breadth of our customer adoption, and we see a significant opportunity to expand the depth of adoption within our customer base by monetizing a broader set of non-vehicle assets.

In addition to our strong top line performance, we continue to focus on driving operating efficiency improvements across our business as we scale. As a result, we saw strong year-over-year leverage across all functions. Our Q2 non-GAAP gross margin was 73%, a year-over-year improvement of 1 percentage point, primarily from product optimizations, improved one-time commercial strategies and larger scale.

Our operating margin was negative 13%, an annual improvement of more than 50% or approximately 17 percentage points year-over-year, driven by leverage across all functions. And our adjusted free cash flow margin improved by more than 20 percentage points year-over-year. Over the past couple of years, free cash flow margin began to lag operating margin due to the global supply chain disruption and the associated increase in component and logistics costs. However, we started to see free cash flow margin converging in Q2 of this year, and we expect that trend to continue with supply chain improvements. As a result, we believe operating margin is a good leading indicator for profitability, while we continue to navigate a supply chain constrained environment.

Okay. Now turning to guidance. For Q3 we expect total revenue to be between \$154 million and \$156 million, representing year-over-year growth between 35% and 37% and non-GAAP operating margin to be approximately negative 20%.

Based on our Q2 results and increased forecast clarity for the second half of the year, we're raising our full-year revenue guidance to be between \$610 million and \$614 million or between 42% and 43% year-over-year growth. In addition to increasing our top line guidance, we continue to focus on achieving savings through improved operating efficiencies.

As a result, we're also raising our FY 2023 non-GAAP operating margin guidance to negative 18%. And finally, we also included some additional modeling notes for Q3 and full-year FY 2023 in our shareholder letter.

To wrap up, while we're operating in an uncertain macroeconomic environment. We are pleased with our performance in the first half of the year. We are digitizing the world of physical operations and our cloud is becoming our customer's system of record. As a result, we remain committed to driving durable growth along with improved operating efficiencies on our path to profitability.

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

QUESTION AND ANSWER SECTION

Michael Chang

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

A

Thank you, Dominic. We'll now 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 Alex Zukin at Wolfe, followed by Matt at William Blair.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Hey, guys. Can you hear me okay?

Michael Chang

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

A

Yes. Yeah. We can hear you.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. So look, I think really strong quarter. Congrats. One of the standout features that I saw at least was how much of the net new ACV is coming from kind of the emerging product category. And I mean, you spoke about multiple million-dollar deals where those upsells came together. So I guess, for investors that are looking to kind of dream the platform dream longer term, was it – did you feel like that was more of a focus internally and a push from the go to market team? Was it a pull from customers looking to do more with the platform? And is it – was this an inflection point type of quarter? Was it just a confluence of events because particularly on a macro backdrop, that seemed really, really strong? And I've got a quick follow up.

Sanjit Biswas

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

A

So, Alex, I'll take that one. This is Sanjit. I would say it as probably more pull than push from us. In general, our sales team [ph] as a generalist (16:57) organization, they're able to sell all the products and really focus on solving customer problems. We saw customers realize that they can digitize more of their physical operations in terms of other non-vehicle fleet assets, for example trailers, generators, compressors, bulldozers, yellow iron equipment used in construction and so on. So I think now the market is starting to realize that this expands well beyond just fleets of vehicles to all kinds of operational assets. And that pull is what we see reflected in that 17% of net new ACV. We are going to continue to invest in that product line and make sure it's well integrated in our platform and connected across all the reports and APIs. But I think this is a bit more of the market starting to realize you can digitize a lot more.

Dominic Phillips

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

A

I think that we've tried to call this out at an Investor Day and in the shareholder letter. I think what gets us excited is that while non-fleet applications is over 10% of our ARR, we're seeing a much higher customer adoption. So almost 50% of our multiproduct core customers and almost two-thirds of our multiproduct large customers are already using a non-fleet application.

And we called out in the letter, a lot of these are coming through expansions and so our – one of our top five customers who is already using us for telematics and for safety and equipment has decided to bring some additional non-vehicle assets online. And it was an expansion to a large customer. And so I think we're – based on the adoption that we're already seeing, we're really excited about the ability to go back to our existing customers and bring online a broader set of assets.

Alex Zukin*Analyst, Wolfe Research LLC*

Q

That makes a lot of sense and it's great to see. But I guess just to follow up, Dom, for you. Just want to understand when you think about when you see the macro sensitivities that you talked about the elongating sales cycles. Clearly, net new ARR in the quarter was very strong. Did you feel an impact or a headwind from those things on net new ARR? Would it have been stronger if not for that and/or what's the right way to think about comparing net new ARR seasonality linearity on a go forward basis with that macro backdrop?

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

A

Yeah. We are definitely seeing elongated sales cycles. And so, customers are using more rigor as they're going through the process of signing the contract. They are really making sure that they're nailed down on the ROI analysis. They're at times asking to do longer trials and making sure that they've got the right internal resources to go through the deployment and so that they're getting the ROI as quickly as possible.

And so we definitely saw some elongated sales cycles and that probably had some impact on the top line. I think specifically, we were a little stronger in some areas. So we called out non-fleet applications. It was a pretty good international quarter. We talked about the large customer momentum. It was a strong renewals quarter.

We were a little softer in some other areas. And really that came in with our smallest customer, small customer segment is a little bit more impacted by macro. But I think we're also excited that for the year, we're ahead on our profitability goals and that really allowed us to move up our full year guidance. So, we've got some really good kind of levers where we can make adjustments to how we're spending money based on what we're seeing from top line performance.

Alex Zukin*Analyst, Wolfe Research LLC*

Q

Perfect. Thank you, guys. Congrats on a great quarter.

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

A

Thanks.

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Great. Our next question comes from Matt of William Blair, followed by [ph] Bob (20:30) at Morgan Stanley.

Matthew Pfau*Analyst, William Blair & Co. LLC*

Q

Great. Thanks guys for taking my questions and great quarter. Wanted to first ask on the two \$1 million plus new logos that you added in the quarter, have you ever signed initial deals of this size? And then with these customers, are they just larger than some of the customers that you've added in the past and that's what drove the large deal size? Or are there other factors that made these customers feel comfortable committing to that large of a deal initially?

Dominic Phillips

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

A

Yeah. I mean, so we called out we now have 41 customers paying more than \$1 million of ARR. Several of those landed as new logos at more than \$1 million of ARR, though it tends to be that the majority of those were expansions to existing customers that have added more assets over time. I think we did – out of all of last year, FY 2022, throughout the entire year we did two \$1 million plus new logos all year, and we just did two in Q2. And I would expect more to come in the back half of the year. And so, we have the ability to it to land at that size or have customers kind of expanding. I think it's just a testament to the investments that we've made and really going after the enterprise segment, going after large customers. There's a lot of go-to-market investment required. There's a lot of R&D investment required. And these deals just take time to come together. And so we're really happy to see those investments and that effort paying off in Q2.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Okay. Great. And just to follow up on the margin guidance, so, the – it implies a back half being a lower margin than the second quarter. Is that just the strong hiring quarter in Q2 layering on in the back half or are there other factors that we should think about?

Dominic Phillips

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

A

Yeah, I think it's two things. One, while Q2 was a record hiring quarter for us, a lot of it was back-end loaded. So you'll see more of that expense hit in Q3. And there was also some timing of expenses that we had thought would hit in Q2 that ultimately are going to happen more in the back half of the year. I think what we would just focus investors on is really the full year guidance was minus 20% for operating margin is now improving to minus 18%. And we effectively – the entire implied operating profit beat in Q2 is effectively flowing through to have that that full year margin go up to negative 18%.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Great. Thanks, guys. Appreciate it.

Michael Chang

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

A

Yes. Thanks, Matt.

Dominic Phillips

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

A

Thank you.

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Our next question comes from [ph] Bob (23:04) at Morgan Stanley, followed by Michael at Wells Fargo. [ph] Bob (23:18), I think you're on mute.

Q

Sorry. Can you hear me now?

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Yeah, we can hear you.

Q

Okay. Sorry. Again, congratulations on a solid quarter. Most of my questions were answered, but just one quick question. Your ARR for \$1 million-plus customers, I understand that most of those deals take a long time to come to fruition. Are there any large deals on the horizon, let's say, in the next six months that could dramatically impact your ARR growth trajectory going forward? And do you see any macro impact on those large deals in the second half?

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

A

No. I mean, I think if you look at our overall customer base today, we don't have any massively large customers that are driving a significant portion of our ARR. And so I don't expect there to be any sort of large material swing deals that could have a material impact on the trajectory of our ARR for the rest of the year.

Q

Okay. Thank you very much. That's helpful.

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Yeah. Thanks, [ph] Bob (24:22). Our next question comes from Michael at Wells Fargo, followed by Kash at Goldman.

Michael Turrin*Analyst, Wells Fargo Securities LLC*

Q

Hey there. Thanks. Appreciate you taking the question. Nice job with the Q2 result. I mean, it's been fairly consistent. You're adding 90 – more than 90 customers consistently each quarter on the 100,000 customer metric. You mentioned 60% of the expansions there are with existing customers. Maybe you can just [ph] somehow (24:52) touch on the visibility you have into that expansion path with the existing customer base. And is there anything that you're seeing that would suggest a change at all on how you'd expect that trend on net new versus expansion mix to trend from here?

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

A

We've got a really nice balance right now of our net new ACV coming from – about half from expansions, half from new logos, and it's been pretty consistent over the last several quarters over the last year. And so I would expect that to ultimately roll [ph] forward. There's such (25:25) a large opportunity in front of us of landing new customers. And the typical buying pattern is a land and expand. So they'll start with one product or a certain set of assets and maybe they'll start with in one subsidiary, one geography and then they'll roll out more over time. And as they get value out of the Samsara platform, they'll add more assets onto the platform. And so, we think that that motion, that customer adoption motion will continue.

Michael Turrin*Analyst, Wells Fargo Securities LLC*

Q

That's great. And just a smaller follow-up on the op margin versus free cash flow margin relationship. You did a good job in providing us with some useful disclosure at the Investor Day around the dynamics there. The commentary suggests that supply chain impacts maybe starting to normalize on the margin and that gap starting to shrink. Can you just walk us through what you're seeing there currently and how we should think about modeling a few scenarios there or anything to be mindful of just in the back half of the year as we kind of layer some of these new assumptions on?

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

A

So Michael, why don't I start with the kind of context on the supply chain, if Dominic wants to add on any details on free cash flow versus operating margin. We are seeing improvement in our upstream supply chain. So it's been fairly consistent over the last couple of months. Our key components, we have greater visibility into a lot of the smaller passive components are more readily available on the market and the automotive components have been actually the most challenging to procure.

And we're seeing signs of recovery, especially as we look forward to early calendar year 2023. And then on top of that, we've been able to manage our costs a little bit better in terms of stabilizing and shifting more of our freight to ocean as opposed to by air. So I think the way that we're thinking about it is while we're not out of the woods yet, costs are still elevated from where they were a couple of years ago. We are seeing that recovery happen in the supply chain and that's showing through in the cash flow.

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

A

Yeah. And I would just again point to the shareholder letter and the investor deck where we've got the chart with the gross margin, operating margin and free cash flow margin at the bottom. We have this table that shows kind of the difference between operating margin and free cash flow margin, and you can see like in Q2 of last year, the gap was 16% at Investor Day. And in Q1, we talked about the Q1 FY 2023 difference was 18%. And now, it's down to 12% in Q2. I would expect that gap to continue to shrink in Q3 and Q4. As to Sanjit's point, we get more visibility over supply chain and operate in a more kind of normal environment.

Michael Turrin*Analyst, Wells Fargo Securities LLC*

Q

That's great. Nice job, all. Thank you.

Sanjit Biswas

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

Thank you.

A

Michael Chang

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

All right. Our next question comes from Kash at Goldman, followed by Matt at RBC. Kash, you're on mute. Okay. Let's move forward. Let's go to Matt at RBC.

A

Q

Hey. This is [indiscernible] (28:33) for Matt Hedberg. Can you hear me okay?

Michael Chang

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

Yeah. We can hear you.

A

Q

Yeah. So I wanted to ask about – just a follow-up question on the elongated deal cycles that you noted. Did you see that play out at any specific industries, or was it more or less broad based?

Sanjit Biswas

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

I would say, the effect we've seen has been broad based. It's not any particular industry, whether it's transportation or energy utilities or even the local governments we serve. I would say, everyone is making sure they've got that ROI case lined up and that they have their teams ready to deploy. And I think Dominic highlighted that's the sort of underlying reason. That's, again, not specific to a single industry.

A

Q

Got it. And then, could you talk about how sustainable the digitization trend and physical operations has been in an unstable macro environment? How do the customer conversations evolve in such an environment?

Sanjit Biswas

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

So I would say, this trend towards digitization has been a kind of long arc and it's continuing. They're actually seeing more opportunities and business reasons to drive the digitization. As you think about challenges in the supply chain, I mentioned it a little bit earlier in the call, but it's hard to procure trailers. It's hard to procure equipment in this environment. And so we see customers trying to be more efficient with their asset utilization. I think they're also thinking about their own cash and can they take some of those underutilized assets and remarket them, sell them off, in other words, to raise cash and reinvest in their business. We also see fuel prices have fluctuated quite a lot over the last quarter and really over the past year. We've seen some recovery now. But even if you take a closer look at the price of diesel, it's elevated. And so many of our customers are saying, can

A

we become more efficient and more sustainable, in other words, use less fuel using all of this data? So I would say these are all of the sort of tailwind effects that we have that are in favor of digitization. It just – is simply – these customers going through a transformation, it's new for them.

Q

Got it. Thank you.

Michael Chang

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

A

All right. Our next question comes from Derrick at Cowen, followed by Kirk at Evercore.

Derrick Wood

Analyst, Cowen & Co. LLC

Q

Great. Thanks for taking my question. Congrats, guys, on a strong quarter. Sanjit, you mentioned that you guys hired a new Chief Product Officer, came from ServiceNow, ran the IT operations portfolio. Are there any new product strategies to call out or anticipate coming down the pike? And in particular, just this notion of maybe having tiered pricing and going after new monetization strategies, just any thoughts to share on potential new pricing or packaging strategies?

Sanjit Biswas

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

A

So, Derrick, for us, this is about – it's building for the long term kind of view. And we're really excited to have Jeff on board because he has seen the scale that we are approaching now as we continue to grow as a company. We're also serving many more of these larger, more complex customers who have these \$1 million plus ACV footprints. And there's an opportunity there to continue layering on new products and new innovation. We don't have any specific pricing model changes or new packages to announce on this call. But it is something we are thinking about, which is as we continue to invest in R&D, what's the right way to package and price those innovations? And so that's something that Jeff will work on in the next couple of years.

Derrick Wood

Analyst, Cowen & Co. LLC

Q

Great. Thanks. And Dom, one for you. Just in terms of your assumptions within guidance regards to the macro, I mean, are you expecting conditions to stay the same through the year, slight elongation of sales cycles, but no material impact to demand, I guess, maybe a little slower weakness at the lower end, better durability at the upper end? Any thoughts on what inputs you put into the guidance for second half?

Dominic Phillips

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

A

Yeah. Yeah. So I think our view is that for the second half of the year, we think that the customer demand, the pipeline, the win rates, all of those things we expect to remain strong because of this trend, digital transformation in the world of physical operations. We don't think that's going away. And again, this is a solution that plays really well in this type of environment where we can help customers directly reduce their operating costs. We also do expect that the macro headwinds, broader uncertainty are going to continue, the elongated sales cycles. We expect that that will continue as there's kind of economic uncertainty.

I think the way that we view it, though, is like while we can't control the broader macro impact, we are really using this as an opportunity to drive even more profitability. And so that is something that is really within our control and will balance the way that we kind of spend money based on what we're seeing on the top line. We were able to raise our operating margin, our free cash flow margin for the rest of the year, and we're continuing to look for ways to find other efficiencies within our business.

Derrick Wood

Analyst, Cowen & Co. LLC

Well done. Thank you.

Q

Sanjit Biswas

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

Thanks.

A

Michael Chang

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

Thanks, Derrick. Our next associate comes from Kirk at Evercore followed by [ph] Ella (33:36) at JPMorgan.

A

Peter Burkly

Analyst, Evercore Group LLC

Hi. Thanks, guys. This is actually Peter Burkly on for Kirk. Appreciate you taking the questions here. So, obviously, you're getting a lot of questions about the macro. So kind of just following along that train of thought, intuitively it would make sense that the telematics piece of the business, what sort of hold up better given companies are looking for ways to ran in their spending. And so, having the ability to make more informed decisions regarding fuel efficiency and the like would be helpful. So just curious, is that a fair characterization?

And if not, is there anything that you guys would call out as it relates to strength in any other products specifically?

Q

Sanjit Biswas

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

So, Peter, this is Sanjit. It's interesting. I was just on a customer tour where Jeff and I visited probably 8 or 10 customers in a pretty short time span. And there was a lot of interest, not just for telematics, but also our safety products. It turns out people get into accidents regardless of interest rate. And so they are thinking about how do they manage those insurance payout costs. That's a very real business problem for them. We talked about some of the value proposition of connected equipment, getting better asset visibility. So I would say it's really all of these pillars are working in favor and we are seeing that as we land new customers, they're landing as multiproduct transactions. So we hear from our customers, they're investing in that platform in digitization across their operations, not just specifically telematics. And that's exactly what we're building towards.

A

Peter Burkly

Analyst, Evercore Group LLC

Okay. Great. That's helpful color, Sanjit. Appreciate that.

Q

Sanjit Biswas

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

Sure.

A

Peter Burkly*Analyst, Evercore Group LLC*

Q

If I could sneak in one more maybe. You guys obviously have a pretty impressive growth trajectory, but again, just curious, given the dynamics in the macro today, how you're sort of thinking about that ramp to profitability. I just wonder if there's any levers in particular that you'd call out, or is it more kind of in the flip side, so it's sort of full steam ahead from your guy's perspective in terms of just investing for growth?

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

A

No, it's definitely the former. I mean, this has become a big priority for us internally. We've got a number of projects underway to really accelerate our timeline to breakeven. I think – and we've shown that. Our operating margin improved by more than 50% year-over-year, more than 20 percentage points of free cash flow improvement. And so, it is a big focus. We expect to see continued leverage year-over-year, and we're focused on marching toward breakeven.

Peter Burkly*Analyst, Evercore Group LLC*

Q

That's helpful. Thank you, guys.

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

A

Thank you.

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Thanks, Peter. All right. Our next question comes from at [ph] Ella (36:10) at JPMorgan, followed by Kash at Goldman.

Q

Great. Thank you so much for taking my question. My first question, I was curious, which verticals are you seeing particular strength in right now and where might there be possible weaknesses?

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

A

[ph] Ella (36:26), this is Sanjit. I would say, in general, we're seeing strong demand across industry segments. I wouldn't necessarily call out a single vertical. And it's – again, we talked about some of the themes behind digitization. There are different dynamics at play in each of the markets we serve. Labor shortages are kind of common across the board. But I don't know, Dominic, if you have any other sort of color on that.

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

A

Yeah. I mean, I think just digitizing the world of physical operations like moves across all of these segments. Every industry right now is looking for ways to improve efficiency, to lower costs regardless of industry, and that's

really what we're building toward and what we're selling into. And so, we're seeing really strong customer demand across all verticals.

Q

That's really helpful. Thank you so much. And as a quick follow-up, I was curious, does the profitability of verticals differ materially? Are certain verticals considered more profitable than others?

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

A

No, it's the same. I mean, if you just think about our overall cost stack, our cloud costs or cellular costs, the IoT device costs, our go – the way that we [ph] compensate (37:35) go to market, R&D, all of that is the same across all verticals. It's a horizontal industry-wide platform.

Q

Great. Thank you so much.

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Thank you.

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

A

Thanks, [ph] Ella (37:51).

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

So, let's try back with our last question with Kash.

Kash Rangan*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. Can you hear me okay?

Michael Chang*Vice President-Corporate Development & Investor Relations, Samsara, Inc.*

A

Yeah. We can hear you, Kash. Great.

Kash Rangan*Analyst, Goldman Sachs & Co. LLC*

Q

All right. Thank you so much. Thanks for taking the question. Great improvement in operating margin and free cash flow progress here. I wanted just ask you, given that you didn't see any big challenges in your business, maybe the value proposition of the product is so high that I wonder, that if you're in a position to actually raise prices and that be absorbed well by your market, which should be obviously great for helping that profitability, wondering if you've given thought to that proposition.

And also, secondly, your input costs, I mean, at what point does the supply situation with your situation settle down? And we're already starting to hear inventories build up at lower cost. And at what point would that be passed along to you, as you potentially, if you want, raising prices, your input costs could also go down. Where are we in that, or is that too much of a stretch? Thank you so much.

Sanjit Biswas

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

A

Sure. So, Kash, I'll start, and maybe Dominic can add on. In general, we do look at pricing and strategy every year or so, and that's something that's just been built into the company. As we continue to invest in R&D, you will see us introduce new packages for customers and we're thinking about different pricing strategies as we go and penetrate the market. We don't have any specific changes that are being announced today, but that is something that's on our mind and it's something we've always thought about. I don't know, Dominic, if you want to cover input cost.

Dominic Phillips

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

A

Maybe on the second one on the input costs. I think the supply chain availability is improving somewhat. You're starting to see again free cash flow margin converge back into operating margin. And again, we expect that to continue in the second half of the year as the supply chain continues to improve. But that is why I think we're trying to point investors and analysts to look at non-GAAP operating margin as kind of the leading indicator of where we expect profitability to be because in the longer term, we do expect free cash flow and operating margin to converge. And so that's kind of the leading indicator of where we expect things to be.

Sanjit Biswas

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

A

And just if I can tack on one more thing. I'm just incredibly proud of how well the team worked together to ensure that we have supply and maintain our gross margins. We've been able to maintain the gross margin profile in the low-70s in spite of all these supply chain issues and fulfill our customer demand. So that's not been an easy task. A lot of creativity required behind the scenes, but I think we managed well through it.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Wonderful. Thank you so much.

Michael Chang

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

Thanks, Kash. So this concludes the question-and-answer portion. Thank you all for attending our Q2 fiscal year 2023 earnings call.

Before I let you go, I have a short announcement for upcoming conferences. We will be participating in the Wolfe TMT Conference on September 7, the Evercore Technology Conference on September 7, and the Goldman Sachs Communacopia, Technology Conference on September 13. We look forward to seeing you at one of these events in person.

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

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