samsara

Shareholder Letter

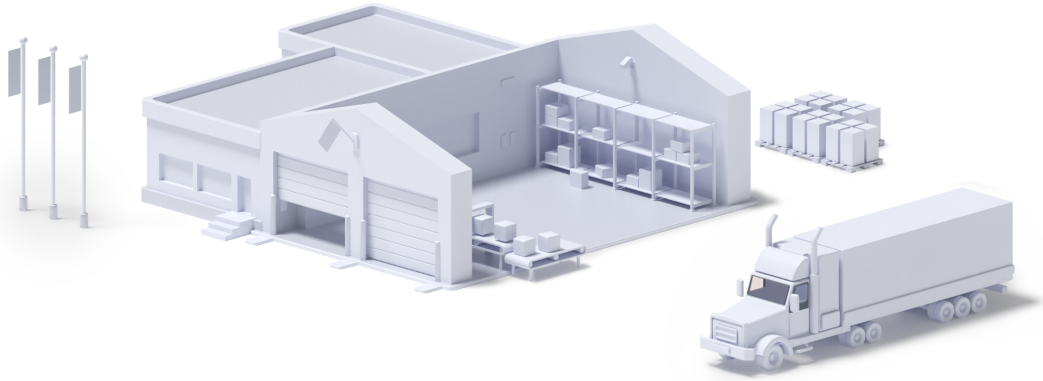
Q3 FY23 | December 1, 2022

Legal Disclaimer

This shareholder letter contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, market size and growth, industry developments and trends, the calculation of certain of our financial and operating metrics, capital expenditures, future payroll tax obligations, plans for future operations, headcount and productivity growth, macroeconomic conditions, competitive position, technological capabilities, inventory capacity and supply chain conditions, customer adoption of and expected results from our Connected Operations Cloud, including cost-savings and return on investment, and strategic relationships, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and could cause actual results and events to differ. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "would," "continue," "ongoing", "guidance" or the negative of these terms or other comparable terminology. You should not put undue reliance on any forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all. Forward-looking statements are based on information available at the time those statements are made, including information furnished to us by third parties that we have not independently verified, and/or management's good faith beliefs and assumptions as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. In light of these risks and uncertainties, the future events and circumstances discussed in this shareholder letter may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. These risks and uncertainties include our ability to retain customers and expand the Applications used by our customers, our ability to attract new customers, our future financial performance, including trends in revenue and annual recurring revenue ("ARR"), annual contract value ("ACV"), net retention rate, costs of revenue, gross profit or gross margin, operating expenses, customer counts, non-GAAP financial measures (such as non-GAAP gross margin, non-GAAP operating margin, and adjusted free cash flow margin), our ability to achieve or maintain profitability, the demand for our products or for solutions for connected operations in general, the impact of the ongoing COVID-19 pandemic, the Russia-Ukraine conflict, geopolitical tensions involving China and other macroeconomic conditions globally on our and our customers', partners' and suppliers' operations and future financial performance, possible harm caused by silicon component shortages and other supply chain constraints, the length of our sales cycles, possible harm caused by a security breach or other incident affecting our or our customers' assets or data, our ability to compete successfully in competitive markets, our ability to respond to rapid technological changes, and our ability to continue to innovate and develop new Applications. The forward-looking statements contained in this shareholder letter are also subject to other risks and uncertainties, including those more fully described in our filings and reports that we may file from time to time with the Securities and Exchange Commission, including our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Except as required by law, we do not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

This letter contains statistical data, estimates and forecasts that are based on publicly available information or information and data furnished to us by third parties such as our customers, as well as other information based on our internal sources. While we believe the information and data from third parties included in this letter are based on reasonable assumptions, this information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the information and data provided by third parties and other publicly available information. Accordingly, we make no representations as to the accuracy or completeness of that data nor do we undertake to update such data after the date that this letter is first released.

This letter also includes certain non-GAAP financial measures. Reconciliations between our GAAP and non-GAAP financial measures, as well as important information about our use of non-GAAP financial results and non-GAAP financial guidance for future quarters, can be found in our investor presentation and/or earnings press release, both of which are available on our investor relations website. A reconciliation of non-GAAP guidance financial measures to corresponding GAAP guidance financial measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty and potential variability of expenses, such as stock-based compensation expense-related charges, that may be incurred in the future and cannot be reasonably determined or predicted at this time. It is important to note that these factors could be material to our results of operations computed in accordance with GAAP.



Sanjit Biswas

Co-Founder and Chief Executive Officer

Samsara delivered another quarter of substantial growth at scale, with Q3 ending ARR of $724M, growing 47% year-over-year. We now have more than 1,100 customers with ARR over $100,000, adding a record 124 in Q3. Large customer wins in the quarter included many Fortune 1000 companies with complex operations, such as Frontier Communications, a leading oilfield services company, and two global industrial services providers. Other notable wins included Agtegra, Brenntag, and Petit Forestier. We also continued to increase our operating efficiency – in the last year, we've improved our non-GAAP operating margins from (26%) to (10%) and our adjusted free cash flow margins from (38%) to (9%). We believe these results highlight our ability to deliver durable and efficient growth.

At the core of our success is our customer feedback loop, where we listen and respond to our customers' greatest needs. We walk in the shoes of our customers every day and solicit continuous feedback to deliver purpose-built products that address their most pressing needs.

During the quarter, Samsara's Chief Product Officer, Jeff Hausman, and I met in person with over 30 customers across North America and Europe. I continue to be inspired by the strength and resilience of our customer base. Our customers are the critical infrastructure that powers the global economy. They span diverse industries that include some of the largest food distributors, chemical companies, energy utilities, freight carriers, and municipalities. Many have been around for over half a century and have survived several challenging economic cycles.

Amid widespread macroeconomic uncertainty, our customers remain steadfast in achieving their business goals and are looking for new ways to maximize each dollar invested into their business. Right now, they are focused on asset efficiency, worker availability, and maintaining safe and compliant operations. Samsara delivers value to customers in all of these areas by digitizing their day-to-day tasks and workflows as the system of record for physical operations.

The Connected Operations Cloud:
Addressing Our Customers' Greatest Challenges

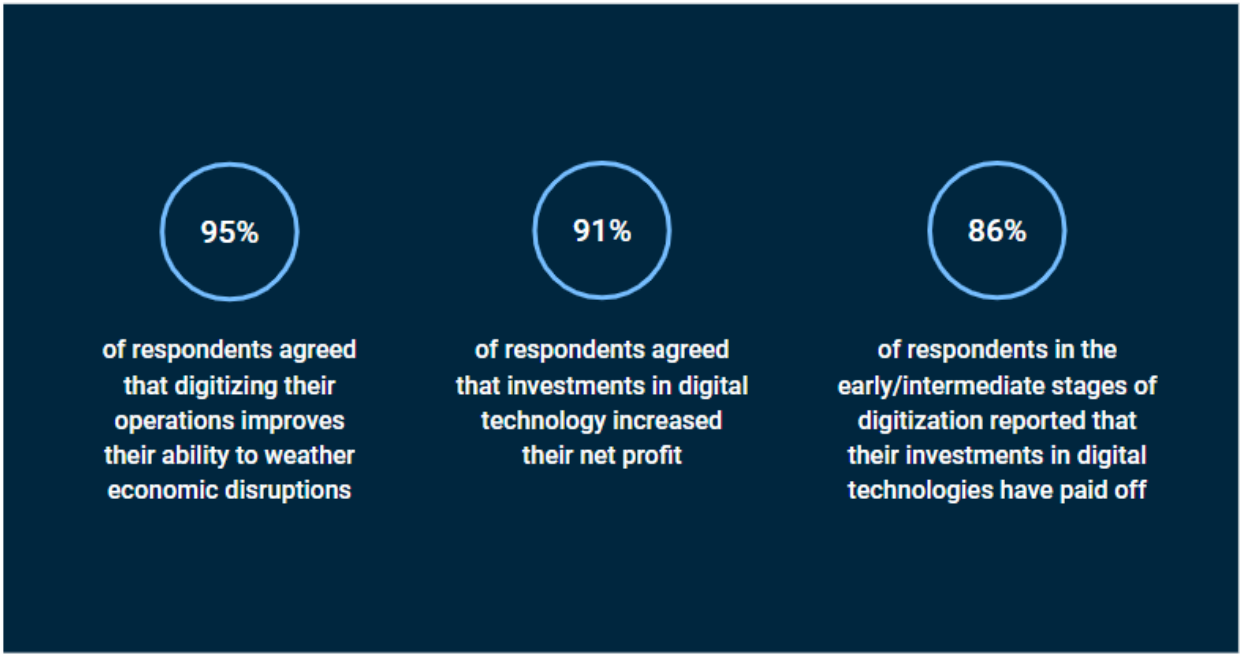
Operational improvements reduce customers' largest expenses

Safer operations protect workers, improving both recruiting & retention

Providing the system of record for our customers' daily operations

DELIVERING RAPID CUSTOMER ROI

Physical operations companies have always prioritized ROI. This quarter we saw ROI come into focus even more, as customers signed on, renewed, and expanded because of the clear ROI Samsara provides. We saw evidence of this in our State of Connected Operations Report, which found that 91% of operations leaders believe digital technology investments have led to an increase in net profit.



Improving Safety:
Reducing Accidents, Retaining Workers, Exonerating Drivers

Working in physical operations can be a dangerous job. There are nearly one million manufacturing injuries and truck crashes[1] every year in the U.S. alone. It is a large reason why safety is often the number one priority for our customers. Our AI cameras enable real-time incident detection, preventative in-cab coaching, and worker safety scores. These features help customers adopt safety practices that can prevent accidents, exonerate drivers, lower insurance premiums, improve worker retention, and ultimately save lives.

CUSTOMER CASE STUDY

A waste transportation and container rental company in Texas uses Samsara's Connected Operations Cloud for Video-based Safety and Vehicle Telematics applications. They adopted Video-based Safety to improve driver safety on the road and access reliable video evidence to exonerate their drivers from false accusations. Leveraging Samsara's Video-based Safety driver coaching, they reported a 58% decrease in speeding in one year, while also exonerating their drivers from more than 50% of accidents. They estimate that these exonerations alone saved them $500,000 in annual insurance premiums, representing a five-month payback period for their entire investment in Samsara products. Just as important, they were able to turn their safety culture into a retention multiplier. Their driver turnover rate dropped to 26%, more than three times lower than the industry average of 80-90%[2]. Retaining skilled workers is a significant cost reduction lever, and is especially important given today's labor shortage.

CASE STUDY

Waste transportation and container rental company in Texas

VIDEO-BASED SAFETY
3 features:
HD recording, safety coaching & real-time driver feedback

>50% exoneration rate for accidents

$500K estimated savings from annual insurance premiums

5 months payback period achieved with only three features

Multi-Product Subscriptions

Safety
- HD recording
- Safety coaching
- Real-time driver feedback

Telematics
- Fuel reporting
- Vehicle idling
- Routing optimization

[1] Carsurance, March 2022, https://carsurance.net/insights/truck-accident-statistics/
US Bureau of Labor Statistics, November 2022, https://www.bls.gov/news.release/osh.nr0.htm
[2] ATA, July 2019, https://www.trucking.org/sites/default/files/2020-01/ATAs%20Driver%20Shortage%20Report%202019%20with%20cover.pdf

Improving Efficiency:
Increasing Utilization, Optimizing Routes, Improving Worker Productivity

Inflationary pressures remain top of mind for customers. Samsara is a deflationary technology with a proven ability to help customers control costs. Our Connected Operations Cloud provides insights to help customers optimize routing and scheduling, improve worker productivity through automation, create more efficient digital workflows, track equipment to prevent theft and monitor utilization, and increase asset uptime.

CUSTOMER CASE STUDY

A leading infrastructure provider serving more than 40 states currently uses our Vehicle Telematics, Video-based Safety, and Equipment Monitoring applications to streamline their operations. By using Samsara data to optimize asset usage, they estimate savings of $11 million across their multiple subsidiaries, representing a five-month payback period for their entire investment in Samsara products. With real-time operational data, they identified inefficiencies in their equipment usage and sold the underutilized equipment, freeing up cash flow to invest in other areas. Optimizing asset utilization is a particularly relevant topic for physical operations customers who now face record wait times for new vehicles and equipment.

CASE STUDY

Leading infrastructure provider serving more than 40 states

EQUIPMENT MONITORING
2 features:
Equipment tracking & utilization reporting

$11M
estimated savings from asset optimization

5 months
payback period achieved with only two features

Multi-Product Subscriptions

Equipment
- Equipment tracking
- Utilization reporting
- Preventive maintenance

Telematics
- Fuel reporting
- Vehicle idling
- Routing optimization

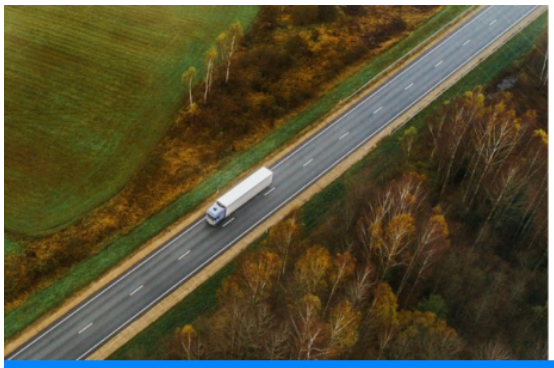
Safety
- HD recording
- Safety coaching
- Real-time driver feedback

Improving Sustainability:
Electrifying Fleets, Reducing Fuel Consumption, Achieving Emissions Goals

The industrial and transportation sectors made up 72% of U.S. energy consumption in 2021[3]. Fuel can often represent up to 25% of a company's total fleet operating budget, or even higher in today's economy[4]. In addition, carbon reporting is increasingly important to our growing customer base. Samsara's Connected Operations Cloud helps customers measure and reduce fuel and energy use, electrify their fleets, and monitor carbon emissions in order to meet their sustainability goals.

CUSTOMER CASE STUDY

A less-than-truckload carrier based in Illinois has been a Samsara customer since 2017. They were originally drawn to Samsara because we provide a complete platform that would help them reduce fuel usage, improve safety within their vehicles and warehouses, and cut back on paperwork and inefficient processes. They currently use our Vehicle Telematics, Video-based Safety, and Site Visibility applications. Since deploying our Vehicle Telematics application across their entire fleet, they have reported an improvement in fuel efficiency and a 50% decrease in idling, a significant source of fuel waste. This translated to an estimated 150,000 gallons of fuel saved and over $500,000 in cost savings per year, representing an eight-month payback period for their entire investment in Samsara products.



CASE STUDY

Less-than-truckload carrier based in Illinois

VEHICLE TELEMATICS
2 features:
Fuel reporting & vehicle idling

50% decrease in vehicle idling

$500K annual cost savings from fuel reduction

150K gallons of fuel saved annually

8 months payback period achieved with only two features

Multi-Product Subscriptions

Telematics
- Fuel reporting
- Vehicle idling
- Routing optimization

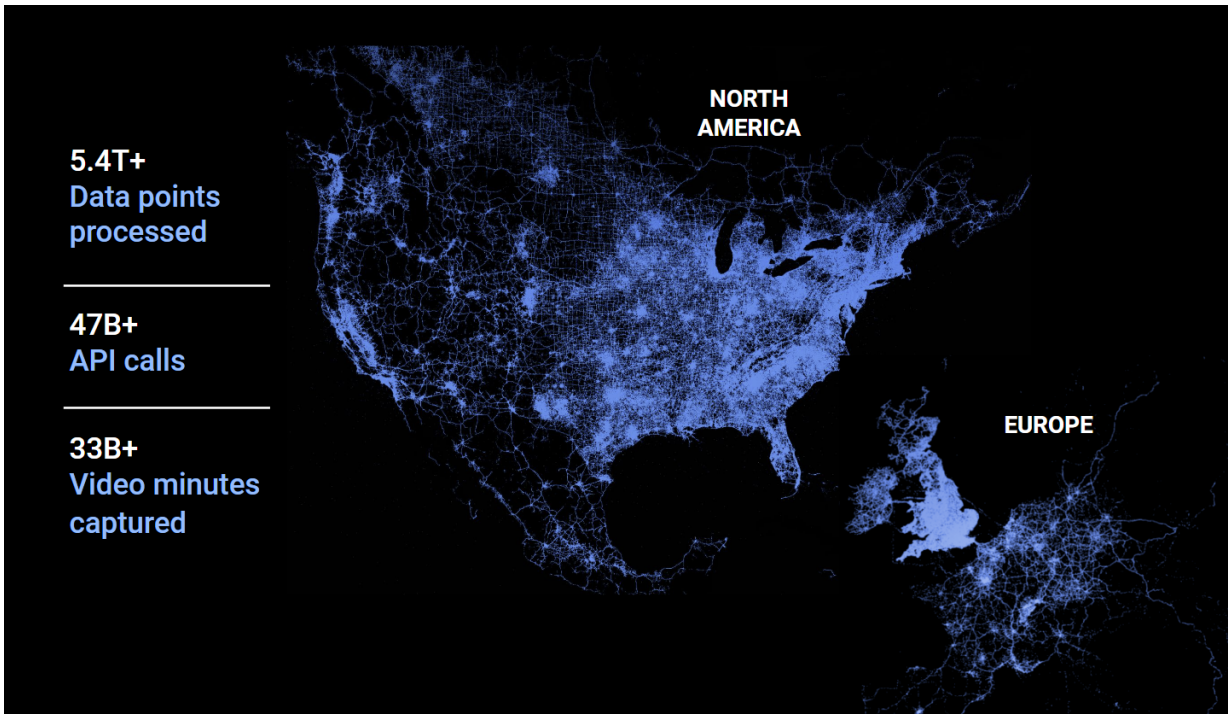
Safety
- HD recording
- Safety coaching
- Real-time driver feedback

Site Visibility
- AI-powered video search
- People and motion alerts

[3] US Energy Information Administration, June 2022, https://www.eia.gov/energyexplained/us-energy-facts/
[4] AtoB, https://www.atob.com/blog/fleet-management-costs

SYSTEM OF RECORD FOR PHYSICAL OPERATIONS

Volume and Breadth of Samsara Data



Stats based on trailing twelve months as of Q3 FY23

Samsara helps customers access, analyze, and act on a vast array of operations data. Trillions of data points now flow through our platform every year, providing companies with rich insights that help them control costs, improve safety, and reduce emissions.

What makes our data unique is not just the sheer volume, but the breadth as well – this is what makes us our customers' system of record. We are uniquely able to pull data from all aspects of a company's physical operations, from vehicles to equipment to buildings. With the data ingested onto our platform, we can create customizable applications that provide actionable insights for our customers. Take Samsara's digital workflows for example: we offer organized records within the Samsara platform across Driver Vehicle Inspection Reports (DVIRs), Hours of Service (HOS) log certification, and Commercial Driver Licenses (CDLs). All of this business-critical data exists within an open platform and can be seamlessly connected with our robust ecosystem of partner integrations.

Open Partner Ecosystem

This quarter we reached an important company milestone, adding our 200th partner integration to our platform. One of these integrations is RUBICONSmartCity™, which helps city governments run efficient waste, recycling, and municipal fleet operations to improve citizen services. With RUBICONSmartCity™, our customers can access a full-service routing platform to get real-time visibility into their vehicles.

Reaching this milestone makes Samsara the largest open ecosystem for physical operations. Similar to leading cloud platforms that exist to deliver actionable insights for IT workers, Samsara allows physical operations leaders to have a single source of truth, creating a competitive advantage for new and existing customers.

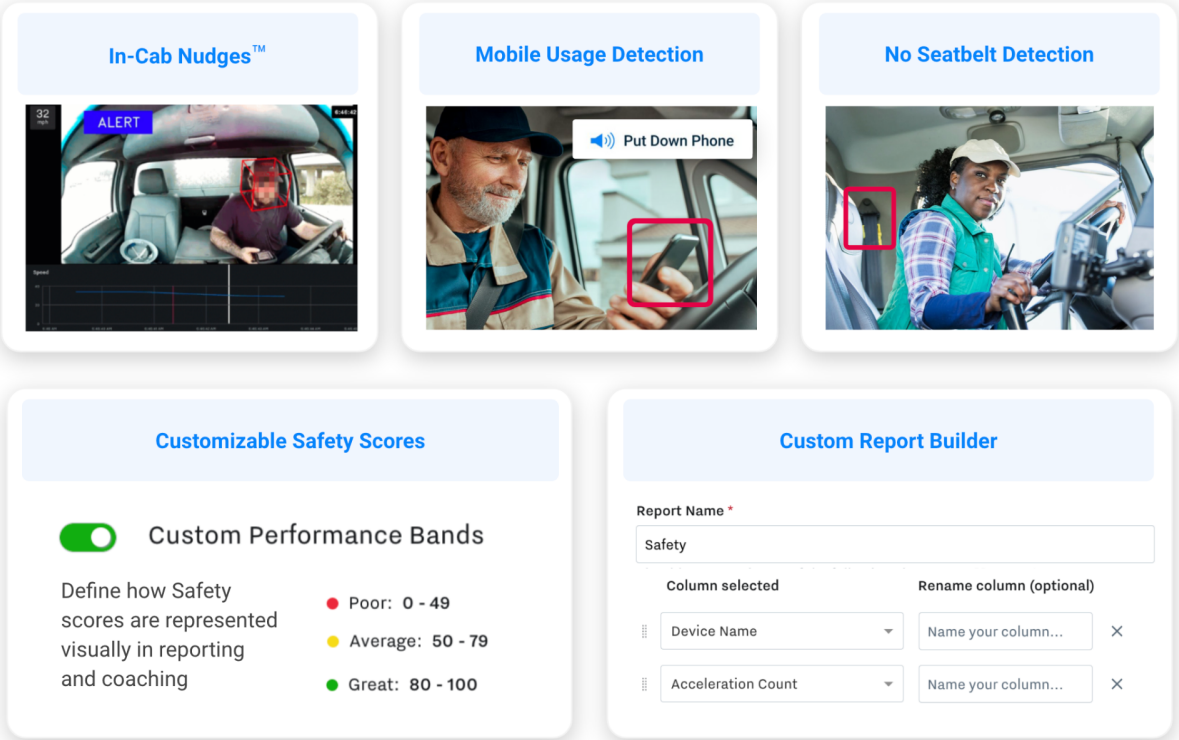
Select Partners

OEMs	IT Data	Insurance	Vertical Specific Apps
THERMO KING	slack	Nationwide	RUBICON SmartCity™
STELLANTIS	ADP	PROGRESSIVE	Trimble
general motors	KRONOS	Canal INSURANCE	McLeod SOFTWARE

Scale of IoT Data Unlocking AI & Analytics

As the scale of our data compounds, we're able to refine our analytics models to create even richer insights while prioritizing our customers' privacy. Our IoT platform has captured more than 33 billion minutes of video footage in the last twelve months and customers' trips on 99% of all major U.S. roads. This unique visibility enables us to continuously enhance our AI models and ultimately identify new product innovations for our customers.

This quarter, we released our Proactive Driver Coaching solution, powered by our data asset and advanced AI capabilities, to take a preventative approach to driver safety. Technology solutions like this help build safe habits on the road, empower drivers to own their coaching experience, and can act as a differentiator for companies looking to attract and retain talent in a competitive market.



Beyond data, our customers need access, visibility, and control to measure what matters most to achieve their business objectives. This quarter we enhanced our safety score feature with more customizable options, allowing Samsara customers to configure score settings based on their unique safety priorities. We also launched a custom report builder, which enables customers to create personalized reports for their workflows to track efficiency, safety, compliance, maintenance, and asset utilization in the way that best suits their business needs.

BUILDING FOR THE LONG TERM

Delivering Operational Efficiency for a Multi-decade Mission

While we are proud of what we've achieved as a company, we are still in the early innings of our large market opportunity. Digitally transforming the world of physical operations does not happen overnight – to be a multi-decade partner for our customers, Samsara must become a self-sustaining company. This quarter marked our tenth consecutive quarter of delivering year-over-year improvements to non-GAAP operating loss in both dollars and margins, as we scaled ARR over 3x from $222 million to $724 million in the same ten-quarter period. We remain committed to continued operating efficiency on our path to profitability. We are focused on making investments in the highest ROI areas of our business to deliver on our mission to increase the safety, efficiency, and sustainability of the operations that power the global economy.

Doubling Down on Our People

We continue to invest in our executive leadership team to help grow and scale the business while making Samsara a destination of choice for our existing and growing talent base. This quarter we welcomed Steve Pickle as Samsara's first Chief People Officer. Steve joins us from Salesforce, where he served as Executive Vice President of Global People Strategy and Operations, helping to double Salesforce's headcount from approximately 40k employees to 80k employees. Steve's experience leading and growing large-scale transformative teams and cultures will be instrumental as we strategically build and develop our talent pool to capture market demand and support our growing customer base.

Investing Globally to Support Our Customers

We benefit from a flexible workplace model at Samsara and have offices in North America, Europe, and Asia. By expanding our operations, we're able to leverage the efficiencies of a global talent pool, bolster customer support, and accelerate region-specific go-to-market strategies.

We're also focused on building more capacity and infrastructure to support our future scale. This quarter we launched our Poland technology center to drive customer innovation and product development capacity, and continued our investment in the DACH region by opening a Munich office and hiring our first DACH regional sales director.

It's been another exciting quarter of durable and efficient growth across our product offerings, partnerships, executive leadership, and global footprint. We are proud to serve a diverse and resilient range of essential industries. These industries increasingly rely on Samsara to reduce costs and streamline their operations – foundational tenets that our Connected Operations Cloud was built upon and will continue to address.

We are grateful to our customers, partners, and Samsarians across the globe for their shared commitment to increasing the safety, efficiency, and sustainability of the operations that power the global economy. While there's much to be proud of, the best is yet to come.

Dominic Phillips

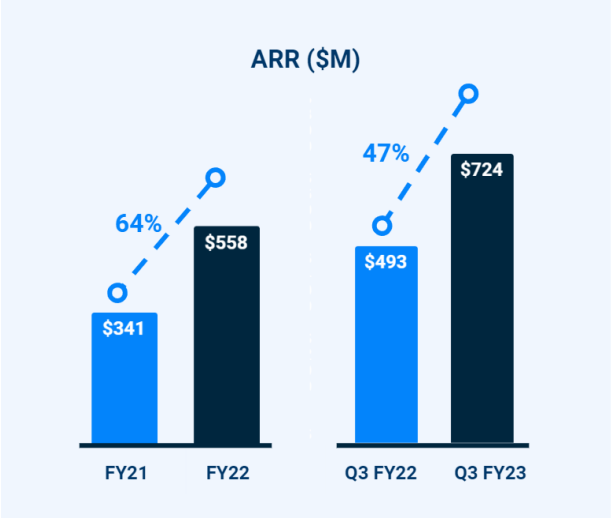
Chief Financial Officer

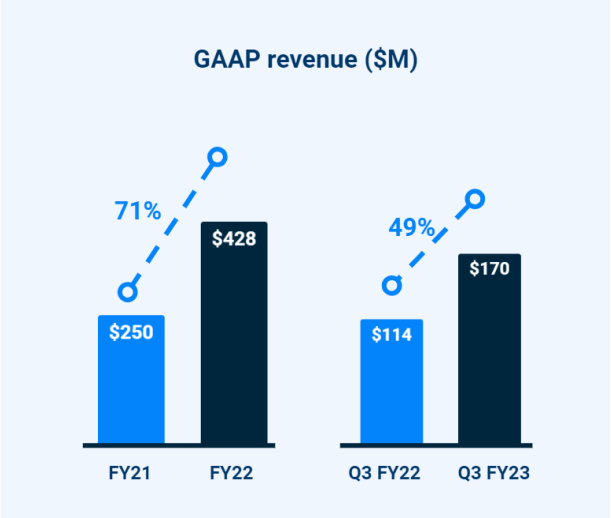
Q3 FY23 was highlighted by strong top-line growth and continued operating efficiency improvements. Our durable and increasingly efficient growth demonstrates the large and growing opportunity for digital transformation across the world of physical operations. While global economic uncertainty persists, we exceeded our expectations for key topline and profitability metrics by providing quick time to value and meaningful ROI savings for our customers. The physical economy continues to see strong demand, and labor and asset shortages are accelerating our customers' need to reduce costs and improve productivity by adopting technology to achieve their safety, efficiency, and sustainability goals.

Q3 FY23 HIGHLIGHTS

Top-line Results

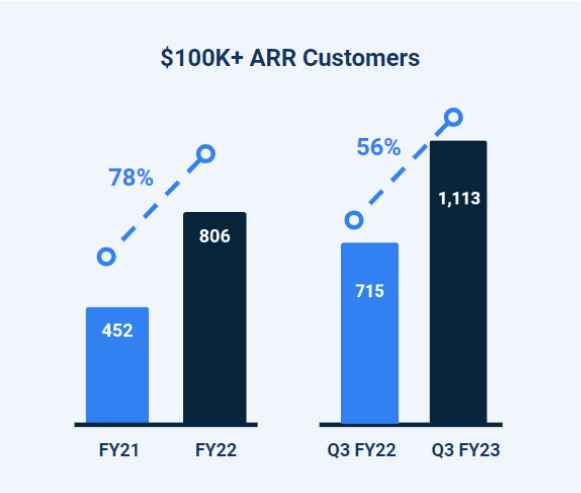
Samsara delivered high growth at scale, with ending ARR of $724 million, growing 47% year-over-year, and Q3 revenue of $170 million, growing 49% year-over-year.

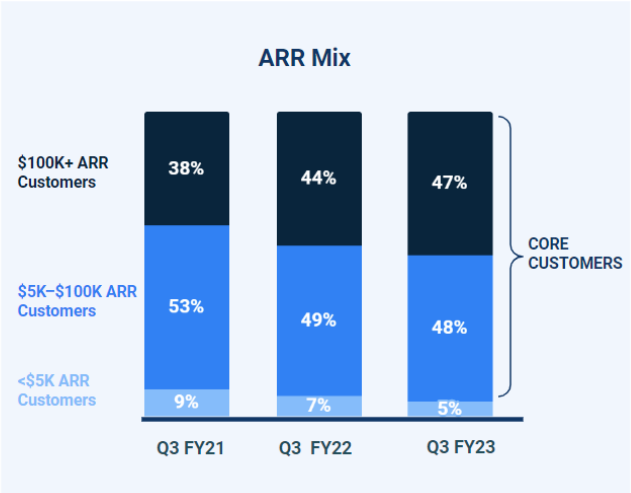




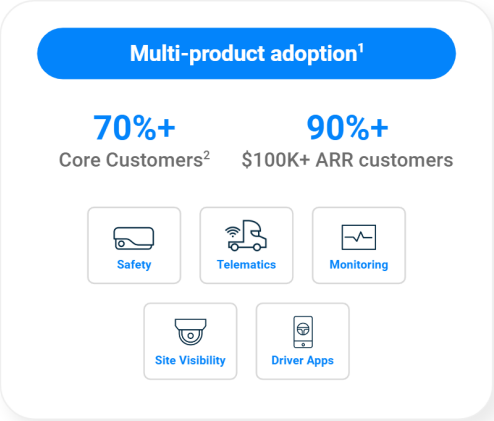
Several factors drove our strong-top line performance in Q3:

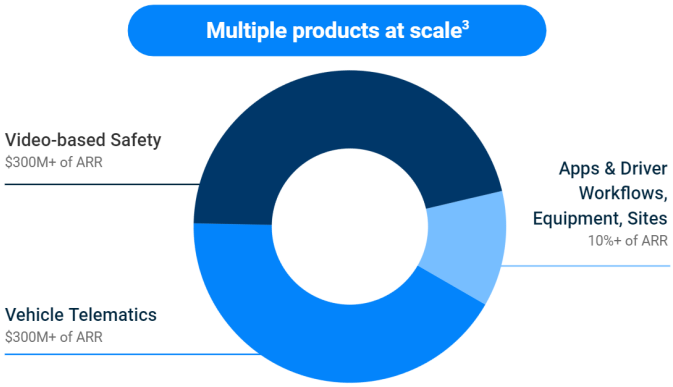
- **Large Customer Momentum:** Samsara is purpose-built for large customers with complex operations that want full visibility and control over thousands of disparate assets on one integrated platform. Also, large customers provide valuable feedback that drives our product innovation, are generally more resilient through economic uncertainty, and typically have attractive unit economics. Our investments in serving the largest physical operations customers in the world continue to pay off. In Q3, we eclipsed 1,000 large customers and now have 1,113 $100K+ ARR customers, a record quarterly increase of 124 (approximately two-thirds from existing customer expansions), and a record annual increase of 398, representing 56% year-over-year growth. Our investments in large customers coincide with a de-emphasis on acquiring non-core customers with less than $5K of ARR, which now represent only 5% of ARR.





- **Multi-Product Strength:** Samsara is increasingly utilized as the system of record for physical operations. The majority of our customers subscribe to multiple Samsara products, and a growing number utilize at least one of our 200+ software integrations to run their operations more safely, efficiently, and sustainably in Samsara's Connected Operations Cloud. In Q3, 6 of our 10 largest transactions included subscriptions to two or more products. More broadly, 70%+ of core customers and 90%+ of $100K+ ARR customers subscribe to 2+ applications, and more than 50% of $100K+ ARR customers subscribe to 3+ applications. We're also seeing multi-product strength at scale. At the end of Q3, our two connected fleet applications, Video-based Safety and Vehicle Telematics, each represented more than $300 million of ARR. Additionally, our non-fleet applications contributed more than 14% of Q3 net new ACV, up from less than 11% in Q3 FY22, including our third largest ever Equipment Monitoring transaction. And while non-fleet monetization is a little more than 10% of ARR today, customer adoption is much higher. Almost half of our multi-product core customers and two-thirds of multi-product large customers subscribe to non-fleet products, resulting in future non-fleet monetization opportunities as existing customers bring additional assets onto the Samsara platform (for reference, approximately two-thirds of Q3 Equipment Monitoring net new ACV came from upsells to existing customers).





Figures as of Q3 FY23
[1] Defined as two or more product subscriptions
[2] See Appendix for definition
[3] Represents split of total ARR by product

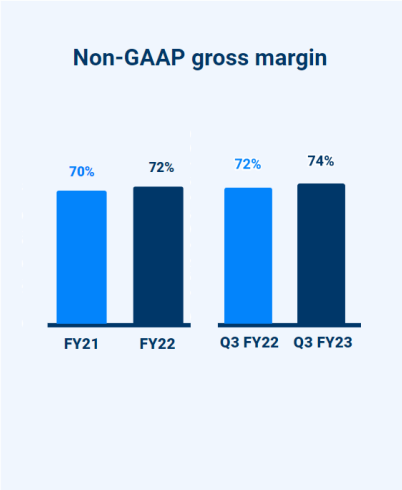
- **Customer Expansions:** Customer expansions, including upsells of existing products across a broader set of assets, and cross-sells of additional products, drove strong top-line performance in the quarter. As a result, 55% of Q3 net new ACV came from existing customers, up from 48% in Q3 FY22, and our dollar-based net retention rate for core customers and large customers remains above our targets of 115% and 125%, respectively. The largest Q3 customer expansion was a $1M+ upsell to a Fortune 500 telecommunications provider. With no incumbent solution, the customer selected Samsara to help them reduce fuel costs and maintenance spending, improve safety through speeding reduction, and decrease carbon emissions from idling. As a result, we expect the customer will achieve a 3.6x ROI.

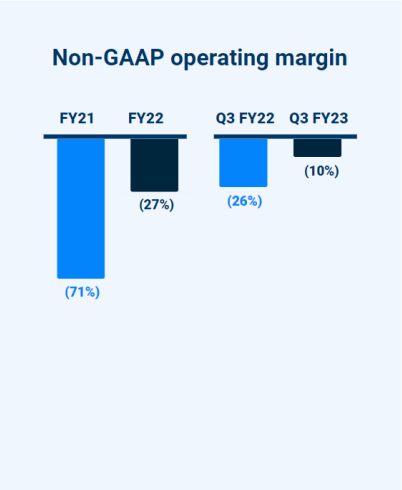
Profitability Results

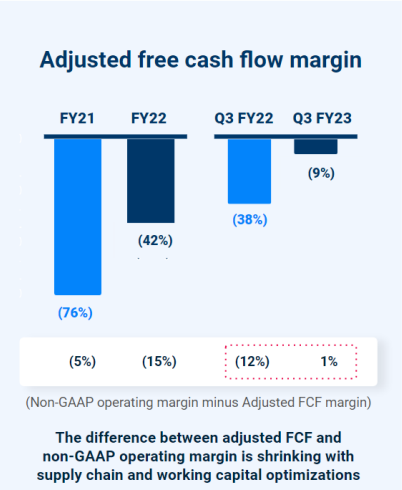
In addition to delivering top-line growth, we continue to focus on driving operating efficiency improvements across our business as we scale. As a result, we saw year-over-year leverage across all major functions.

- **Non-GAAP gross margin** was 74% in Q3 FY23, compared to 72% in Q3 FY22, an improvement of nearly 2 percentage points, primarily from product and supply chain optimizations and larger scale. Q3 was our 9th consecutive quarter of 70%+ non-GAAP gross margin.
- **Non-GAAP operating margin** was (10%) in Q3 FY23, compared to (26%) in Q3 FY22, an improvement of more than 60%, or 16 percentage points year-over-year: approximately 2 percentage points from non-GAAP gross margin (see above), 4 percentage points from improved S&M productivity, 7 percentage points from R&D leverage in our core products, and 4 percentage points from G&A leverage.
- **Adjusted free cash flow margin** (excludes non-recurring capital expenditures associated with the buildout of our SF corporate office facility, net of tenant allowances) was (9%) in Q3 FY23, compared to (38%) in Q3 FY22, an improvement of more than 75%, or 29 percentage points year-over-year, primarily from continued improvements in the global supply chain and working capital optimizations. In Q3, adjusted free cash flow margin converged with non-GAAP operating margin, and we expect these metrics to be more closely aligned moving forward. We also achieved Rule of 40 (49% year-over-year revenue growth + (9%) adjusted free cash flow margin) in

the quarter, a milestone that demonstrates our focus on efficient growth. While we're pleased with this accomplishment in Q3, our goal is to continue making improvements that would allow us to achieve Rule of 40 consistently on a quarterly and annual basis.







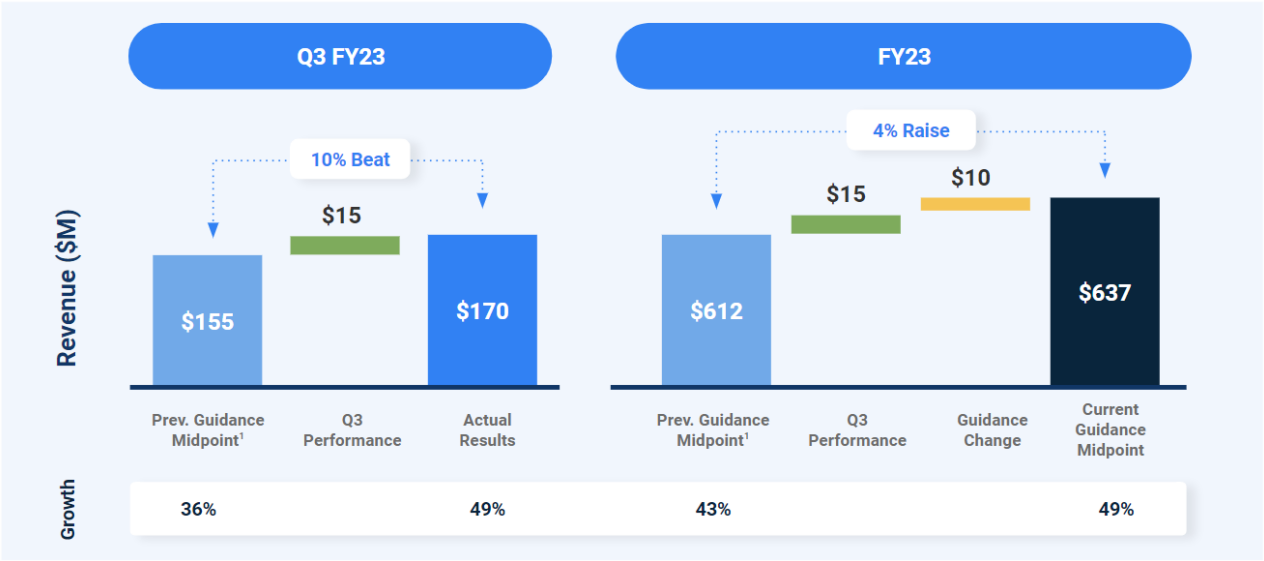
Q4 FY23 AND FULL-YEAR FY23 GUIDANCE

Based on our Q3 results and increased forecast clarity for the last quarter of the fiscal year, we're raising our revenue and profitability guidance (both dollars and margin) for full-year FY23.

We're raising our FY23 revenue guidance to between $636 and $638 million, or between 48% and 49% year-over-year growth. In addition to increasing our top-line guidance, we continue to focus on operating efficiency improvements. As a result, we're improving our FY23 non-GAAP operating margin guidance to approximately (14%), and we're raising our FY23 non-GAAP EPS guidance to between ($0.16) and ($0.17).

Based on our updated full-year FY23 guidance, Q4 implied revenue is expected to be between $170 and $172 million, or between 35% and 37% year-over-year growth. Q4 non-GAAP operating margin is expected to be approximately (16%), and Q4 non-GAAP EPS is expected to be between ($0.05) and ($0.06).

	Q4 FY23	FY23
Total Revenue ***Y/Y Growth***	$170 million - $172 million *35% - 37% growth*	$636 million - $638 million *48% - 49% growth*
Non-GAAP Operating Margin %	(16%)	(14%)
Non-GAAP EPS	($0.05) - ($0.06)	($0.16) - ($0.17)



[1] Refers to financial guidance previously issued on August 31, 2022.

Additional modeling notes:

- No changes to non-GAAP gross margin outlook for FY23, which is expected to be in the low 70s percent (in line with consensus estimates at the time of this shareholder letter).
- Adjusted free cash flow margin for FY23 is expected to be in the low negative 20s percent (an improvement from mid negative 20s percent in our Q2 FY23 shareholder letter due to improved operating efficiency and working capital optimizations).
- Weighted average shares outstanding is expected to be 522 million shares for Q4 FY23 and 514 million shares for full-year FY23.
- Looking to next year, based on our current outlook and after analyzing various scenarios, we believe current consensus estimates for high 20s percent FY24 revenue growth is appropriately de-risked. On our next earnings call, we will provide more detailed FY24 guidance based on our actual Q4 performance and our finalized operating plan.

To wrap up, while we're operating in an uncertain macroeconomic environment, we are pleased with our performance through the first three quarters of the year. We are digitizing the world of physical operations, and our Connected Operations Cloud is our customers' system of record. We remain committed to continued operating efficiency improvements on our path to profitability and to making investments in the highest ROI areas of our business. We believe that with our markets, our platform, and our focus on efficiency, we are well-positioned to continue delivering durable growth and improving profitability.

Appendix

DEFINITIONS / METHODOLOGY

Annual Contract Value (ACV)
We define ACV as the annualized value of a customer's total contract value for Samsara products as of the measurement date.

Annual Recurring Revenue
We define ARR as the annualized value of subscription contracts that have commenced revenue recognition as of the measurement date.

Customer
We define a customer as an entity that has an ARR of greater than $1,000 at the end of a reporting period.

Core Customer
We define a core customer as an entity that has an ARR of greater than $5,000 at the end of a reporting period.

Large Customer
We define a large customer as an entity that has an ARR of greater than $100,000 at the end of a reporting period.

Net Retention Rate
We calculate our dollar-based net retention rate as of a period end by starting with the ARR from the specified cohort of customers as of 12 months prior to such period-end, or the Prior Period ARR. We then calculate the ARR from these same customers as of the current period-end, or the Current Period ARR. Current Period ARR includes any expansion, and is net of contraction or attrition over the last 12 months, but excludes ARR from new customers in the current period, as well as any ARR associated with paid trials. We then divide the total Current Period ARR by the total Prior Period ARR to arrive at the point-in-time dollar-based net retention rate. We then calculate the weighted average of the trailing 12-month point-in-time dollar-based net retention rates to arrive at the dollar-based net retention rate.

In calculating the dollar-based net retention rate for core customers and for $100K+ ARR customers, we look at the cohort of customers with a Prior Period ARR greater than $0 who have exceeded $5,000 ARR in the case of core customers, or $100,000 ARR in the case of $100K+ ARR customers, during their lifetime as a Samsara customer.

Rule of 40
We define achieving Rule of 40 as reaching a sum of year-over-year revenue growth rate and adjusted free cash flow margin, each for the reporting period, of at least 40%.

Customer Payback Period

We calculate a customer's payback period based on annual dollar savings amounts reported by that customer as of a measurement date. We define payback period as the customer's ARR at the end of the relevant Samsara fiscal period in which such measurement date falls, divided by the annual dollar savings amounts reported, multiplied by 12 to calculate payback in months. For payback period calculations involving a group of affiliated customers, the ARR and dollar savings amounts used in the payback period calculation are aggregated across the group's entities.

Customer ROI

We calculate customer ROI by dividing a customer's expected annual dollar savings amount by that customer's ARR for the Samsara fiscal period in which such expected savings were calculated. For ROI calculations involving a group of affiliated customers, the ARR and dollar savings amounts used in the ROI calculation are aggregated across the group's entities.

NON-GAAP FINANCIAL MEASURES

Non-GAAP Gross Profit and Non-GAAP Gross Margin—We define non-GAAP gross profit as gross profit plus stock-based compensation expense-related charges, including employer taxes on employee equity transactions, included in cost of revenue. Non-GAAP gross margin is defined as non-GAAP gross profit as a percentage of total revenue. We use non-GAAP gross profit and non-GAAP gross margin in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that non-GAAP gross profit and non-GAAP gross margin provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations.

Non-GAAP Loss from Operations and Non-GAAP Operating Margin—We define non-GAAP loss from operations, or non-GAAP operating loss, as loss from operations plus stock-based compensation expense-related charges, including employer taxes on employee equity transactions, lease modification, impairment, and related charges, and restructuring and related charges. Non-GAAP operating margin is defined as non-GAAP operating loss as a percentage of total revenue. We use non-GAAP loss from operations and non-GAAP operating margin in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that non-GAAP loss from operations and non-GAAP operating margin provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations.

Non-GAAP Net Loss and Non-GAAP Net Loss per Share—We define non-GAAP net loss and non-GAAP net loss per share as net loss and net loss per share excluding stock-based compensation expense-related charges, including employer taxes on employee equity transactions, lease modification, impairment, and related charges, and restructuring and related charges. We use non-GAAP net loss and non-GAAP net loss per share in conjunction with traditional GAAP measures to evaluate our financial performance. We believe that non-GAAP net loss and non-GAAP net loss per share provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations.

Adjusted Free Cash Flow and Adjusted Free Cash Flow Margin—We define adjusted free cash flow as net cash used in operating activities less cash used for purchases of property and equipment, plus non-recurring capital expenditures associated with the build-out of our corporate office facilities in San Francisco, net of tenant allowances. Adjusted free cash flow margin is calculated as adjusted free cash flow as a percentage of total revenue. We believe that adjusted free cash flow and adjusted free cash flow margin, even if negative, are useful in evaluating liquidity and provide information to management and investors about our ability to fund future operating needs and strategic initiatives.

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