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# Samsara, Inc. (IOT)

Q4 2023 Earnings Call

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### Sanjit Biswas

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

### Dominic Phillips

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### Sterling Auty

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### Keith Weiss

*Analyst, Morgan Stanley & Co. LLC*

### Alex Zukin

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## MANAGEMENT DISCUSSION SECTION

### Michael Chang

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

Good afternoon and welcome to Samsara's Fourth 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 in our Shareholder Letter, press release, investor presentation and SEC filings on our Investor Relations website at [investors.samsara.com](http://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, March 2, 2023, and we undertake no obligation to update these statements as a result of new information or future events, unless required by law.

During today's call, some of our discussions will include our fourth quarter 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 will discuss today are non-GAAP, except for revenue and revenue growth. Reconciliations of GAAP to non-GAAP financial measures are provided with our press release and investor presentation.

We'll make opening remarks, dive into highlights for Q4 and then open the call up for Q&A. With that, I'll hand over the call to Sanjit.

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### Sanjit Biswas

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

Thanks, Mike, and thank you, everyone, for joining us today. FY 2023 was a year of durable and efficient growth for Samsara, and our continued momentum reflects the strength of our platform and large market opportunity ahead of us.

We ended FY 2023 with ARR of \$795 million, growing 42% year-over-year. During the year, we added 431 large customers with more than \$100,000 of ARR, bringing us to over 1,200 large customers in total.

To support customer demand, we grew our team to over 2,200 Samsarians, representing approximately 40% increase in head count year-over-year. As a company, we are focused on balancing growth and profitability and we improved our adjusted free cash flow margin year-over-year by more than 90% in Q4, with negative 3% adjusted free cash flow margin. We also achieved Rule of 40 for the last two quarters of the fiscal year, which is a significant milestone, but there is still much work to be done to consistently achieve Rule of 40 on a quarterly and annual basis.

As you know, our customers represent the broad world of physical operations and span diverse industries from food and beverage to construction to government and more. I'm always impressed by the resilience of our customer base. They're the backbone of the economy and provide the critical infrastructure that keeps the world

running. Many have been around for over half a century and are no strangers to challenging economic cycles. Digitization is more important than ever in today's macroeconomic climate. Our customers are faced with difficult operating challenges and continue to search for ways to maximize the return on their investments to achieve their business goals.

In Q4, we had a milestone quarter of large deals with customers who have complex operations at scale and a breadth of assets, such as cranes, tractors, vehicles and buildings. The value of the Connected Operations Cloud is resonating with them, as we digitize and combine their infrastructure into a single integrated platform. As a system of record for our customers' daily physical operations, the amount of insights and cost savings our platform can generate is tremendous.

I'd like to share a few stories about some of our large customers who are starting to use Samsara to elevate their safety programs and improve their sustainability and efficiency efforts across their vast operations. Let's start with Nutrien Ag Solutions, our largest new ACV transaction ever. They're one of the world's largest agriculture inputs and services providers, and the third largest nitrogen producer in the world with roughly 75,000 assets.

Nutrien adopted Samsara's video-based safety solution to prevent accidents, promote safer driving behaviors through in-cab alerts and help exonerate drivers from false insurance claims. Nutrien's goal is to up-level its existing safety programs and mitigate risk through event analysis, education and training. After completing a pilot with Samsara, Nutrien saw significant improvements across driving behaviors.

Let's now turn to another exciting Q4 win. Estes Express Lines is the largest privately-owned freight carrier in North America and a top 10 Less Than Truckload carrier with more than 22,000 employees, over 45,000 tractors and trailers and 270 terminals. Estes expects the real-time data from Samsara's Connected Operations Cloud will help them increase uptime, reduce costs and achieve their goal of creating a digital twin of its entire shipment lifecycle to improve the customer experience.

This way, they can provide better visibility to their own customers, while removing time-intensive paper-based processes for their drivers and operations staff. Our video-based safety and vehicle telematics applications can help improve driver safety by using real-time alerts and help reduce idling. We project that a 10% to 15% reduction in idling can save them an estimated \$2 million to \$3 million in fuel costs annually. Additionally, we estimate that saving drivers 5 minutes per week by automating manual tasks could lead to over \$1 million in annual savings.

Finally, let's cover another Q4 deal, this time in the public sector. We added a new State Department of Transportation to an existing public sector account, which now exceeds \$1 million in ARR. The State Department expanded to use the Connected Operations Cloud to better manage their light-duty and off-road assets, giving them data-driven insights to make critical operation decisions in real-time.

There are almost 40 agencies within the state, accounting for nearly 11,000 assets. By integrating Samsara's diagnostics data into its state-wide enterprise resource planning system, the state can identify which assets require immediate attention and prioritize spending across their expansive operations. They can also further their sustainability goals by benchmarking assets that use the most fuel and prioritize those best suited to transition to electric.

These customers' stories represent just a snapshot of the incredible momentum we're seeing among large customers with complex operations and we're excited to build on this in the coming year.

As a system of record for physical operations, we help customers solve their toughest challenges by giving them the ability to analyze millions of data points across their expansive operations. More importantly, we help our customers achieve their business goals by transforming data into actionable insights. We've been investing in the Connected Operations Cloud, which continues to grow and become more sophisticated with nearly 6 trillion data points flowing in, over 50 billion API calls processed and more than 50 billion miles driven for analysis annually.

Our partner ecosystem, Samsara's App Marketplace is also growing and now includes more than 220 integrations. Our customers are continuing to plug in additional partners and providers to fully leverage the power of our platform. On average, our largest customers are using six or more API integrations, up from four API integrations just last year.

I'd like to share three specific examples of how our customers across industry are seeing value and rapid ROI from unlocking their data. Let's start with insurance premiums. Insurance premiums are consistently one of the top expenses for physical operations customers and premiums continue to rise annually. Our AI models analyze driver behaviors and road conditions in real time, provide visibility into leading causes of preventable accidents. And when a model detects one of those behaviors, we can proactively alert drivers in real-time so they can take the appropriate action to prevent a potential accident. Safety incidents are saved to our cloud and customers and insurance providers can access this data through APIs. Insurance providers can use this data to better underwrite the risk of fleets, leading to reduced insurance premiums.

Fuel prices also remain top of mind for our customers and can represent 60% of non-personal spend. Leveraging Samsara's fleet benchmarking solution, our customers can better understand fleet performance, identify areas for improvement, set and form goals, and run their own feedback loops to ensure continuous improvements.

Another important cost-saving priority for our customers is extending the life of their most expensive assets from front loaders to cranes to tractors or other costly business-critical equipment. With maintenance SaaS data flowing through our AI models, real-time diagnostics, spot issues and proactively alert mechanics to fix vehicles before major faults take place.

We're focused on creating an agile platform that meets our customers' most pressing needs. We do this through continuous innovation, powered by our data platform and customer feedback loop. A good example of this is with digital workflows and how it's making outsized impact in transforming the worker experience. By adopting Samsara's customizable digital workflows, our customers reduce time spent on manual written tasks, freeing up valuable time for other business-critical work.

And we've seen tremendous traction within our platform. We have seen year-over-year improvements in the number of workflows moving daily through our system, including over 110 million driver vehicle inspection reports logged in fiscal year 2023, a 70% increase year-over-year, and over 23 million digital – documents digitized, a 60% increase year-over-year. Samsara is quickly becoming the system of record for physical operations, and we're excited by the vast opportunity to truly transform the worker experience for our customers.

I'd like to end with a thank you to our customers, partners, investors and Samsarians, who are joining us on the journey to digitize physical operations. We're looking forward to another year of building the Connected Operations Cloud and we're excited to see many of you at beyond our customer conference and investor conference in Austin, Texas, this June.

I'll now hand it over to Dominic to go over the financial highlights for the quarter.

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## Dominic Phillips

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

Okay. Thank you, Sanjit. As a reminder, please refer to our Shareholder Letter, press release and investor presentation at [investors.samsara.com](https://investors.samsara.com) for additional information on our Q4 results and financial guidance.

Q4 FY 2023 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 top line and profitability metrics for a few reasons.

First, we sell into the operations budget, which is large and generally non-discretionary. Second, our customers generate hard ROI savings by deploying Samsara. Third, our solution has a quick average payback period for customers, often in months. And finally, we have a subscription business model that produces highly predictable revenue and we price based on the number of assets versus seat-based pricing, resulting in lower risk of churn if our customers' hiring slows or contracts.

Our Q4 ending ARR was \$795 million, growing 42% year-over-year and Q4 revenue was \$187 million, growing 48% year-over-year. Several factors drove our strong top line performance in Q4. First, we continue to focus on serving large physical operations customers. We now have 1,237 \$100,000-plus ARR customers, a quarterly increase of 124 or 53% year-over-year. We also saw particular strength within our largest customers. We now have 51 \$1 million-plus ARR customers, a quarterly increase of five or 65% year-over-year.

Our investments in serving the largest physical operations companies in the world continue to pay off. \$100,000-plus ARR customers represent our fastest growing cohort and make up 48% of our total ARR, up from just 45% one year ago. And while Q4 was our strong expansion quarter, it was an even stronger new logo quarter. We added a record number of new core customers in Q4, which now total more than 19,000.

New customers represented 51% of net new ACV in Q4, up from 44% in the same quarter last year. And three of the five \$1 million-plus net new ACV deals in the quarter were new logos, including a leading traffic safety field services company operating across North America that landed with video-based safety, telematics and equipment monitoring to reduce accidents, leverage data to drive operating efficiencies, reduce fuel and maintenance costs, and streamline operations.

And finally, multiproduct transactions continue to significantly contribute to our top line growth. In Q4, seven of our 10 largest transactions included subscriptions to two or more products. More broadly, more than 70% of core customers and more than 90% of large customers subscribed to two or more applications, and 25% of core customers and more than 50% of large customers subscribed to three or more applications.

In addition to delivering strong 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.

Q4 gross margin was 74%, approximately flat year-over-year and has stabilized above 70% for 10 consecutive quarters. Q4 operating margin was negative 8%, an annual improvement of more than 40% or 6 percentage points year-over-year, driven by leverage across all functions. And Q4 adjusted free cash flow margin was negative 3%, an annual improvement of more than 90% or 37 percentage points year-over-year, primarily from improved operating leverage and working capital improvements.

Efficient growth continues to be a priority, demonstrated by a 45% Rule of 40 in Q4, our second consecutive Rule of 40 quarter and our highest quarter in the last three years. While we're pleased with this accomplishment, our goal is to continue making the necessary improvements that would allow us to achieve Rule of 40 consistently on a quarterly and annual basis.

And the final Q4 point I want to make is regarding hiring and head count. We ended FY 2023 with more than 2,200 employees or approximately 40% growth year-over-year. Adding head count is a key input to driving future growth, but we continue to operate with discipline while making incremental investments. Our ARR per employee at the end of FY 2023 was more than 350,000, an all-time high and 3 times higher than it was three years ago.

Okay. Now, turning to guidance. As we enter our second year as a public company, we expect our guidance philosophy will be less conservative than during our first year. However, after analyzing various scenarios, we also believe it is adequately de-risked to account for the potential impact of worsening macroeconomic factors on our business.

For Q1 FY 2024, we expect total revenue to be between \$190 million and \$192 million, representing year-over-year growth between 33% and 35%; non-GAAP operating margin to be approximately negative 15% and non-GAAP EPS to be between negative \$0.05 and negative \$0.06, assuming 526 million weighted average shares outstanding.

For full year FY 2024, we expect revenue to be between \$838 million and \$848 million, representing year-over-year growth between 28% and 30%; non-GAAP operating margin to be approximately negative 7%, and non-GAAP EPS to be between negative \$0.05 and negative \$0.07, assuming 536 million weighted average shares outstanding.

And finally, a few additional modeling notes. First, we expect non-GAAP gross margin for FY 2024 will be in the low 70s percent. Second, we expect to cut last year's negative adjusted free cash flow dollars in half in FY 2024 and we expect to reach adjusted free cash flow breakeven in Q4 this year.

And finally, we expect FY 2024 equity dilution to be between 3% and 5% and our longer-term goal is annual equity dilution of less than 3%. And please note that additional modeling notes for Q1 and FY 2024 are included in our Shareholder Letter.

So to wrap up, while we're operating in an uncertain macroeconomic environment, we are very pleased with our performance during our first year as a public company. We are digitizing the world of physical operations and the Connected Operations Cloud is our customer 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 while improving 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

Thanks, Dominic. We will 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 Sterling Auty at MoffettNathanson, followed by Keith Weiss at Morgan Stanley.

**Sterling Auty**

*Analyst, SVB MoffettNathanson*

Q

Can you hear me okay?

**Michael Chang**

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

A

Yeah. We can hear you.

**Sterling Auty**

*Analyst, SVB MoffettNathanson*

Q

All right. Thanks, guys. So just curious if you can characterize what sales pipelines look like exiting the quarter versus maybe 90 or 180 days ago? Just to help us understand the dynamics of macro impacts versus what you're doing on the sales execution side.

**Sanjit Biswas**

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

A

Sure. I'll answer that. We're not seeing a lot of change to sales pipeline. I think we called out some elongated sales cycles in Q2. We saw that persist in Q3 and Q4. But we're not seeing necessarily a change in the overall pipeline or the conversion of that pipeline or the win rates, but we do look at longer free trials, really validating the ROI analysis, elevating decisions higher up within the organization. But we're pleased with the pipeline that we saw exiting the quarter.

**Sterling Auty**

*Analyst, SVB MoffettNathanson*

Q

Excellent. And then, Dominic, you had also mentioned gross margins in the low 70s. You had a nice real sequential uptick in gross margins here in Q4. Can you remind us what are some of the dynamics that are going to ebb and flow that number throughout fiscal 2024?

**Dominic Phillips**

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

A

Yeah. You're really not seeing a lot of leverage out of gross margin. Again, Q4 is approximately flat year-over-year and even as we look into next year. But most of the leverage in this business that's going to drive better operating margins and better free cash flow margins are really going to come below gross margins. I think there's room to do some better optimizations in things like our cloud and cellular costs. We're obviously seeing some

improvements in supply chain and cost of hardware and that will eventually work its way through gross margins. But I just – I wouldn't expect a lot more out of that as we look into FY 2024.

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**Sterling Auty**

*Analyst, SVB MoffettNathanson*

Q

Understood. Thank you.

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**Michael Chang**

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

A

Great. Our next question comes from Keith Weiss at Morgan Stanley, followed by Matt Pfau at William Blair.

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**Keith Weiss**

*Analyst, Morgan Stanley & Co. LLC*

Q

Excellent. Thank you guys so much for taking the question, and a really nice end to a strong year end what is still a difficult environment out there. Kind of a two-part question. It does seem like the value proposition and the strong ROI of the platform is coming through to customers. Are you seeing evidence of that in terms of your customer conversations and in terms of pipeline conversion?

And then number two, the other sort of really striking part of what we've seen throughout this year end and you guys definitely capped it off. And this quarter is not just like \$100,000 customers, but going – getting to some of those largest potential customers out there, like the top 10 transportation companies and the like. What is it that really turned on for you guys this year or what's working that's enabling you to sort of get up to that class of customer and be so successful there?

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**Sanjit Biswas**

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

A

Hey, Keith. This is Sanjit. I'll take the first part. So from an ROI perspective, it's absolutely a strong case. We have multiple opportunities to provide value to our customers on the safety side when it comes to helping exonerate drivers from accidents or even reduced risk to avoid accidents in the first place. That's really compelling. And for these large-scale, complex physical operations customers, it can save them millions of dollars on a yearly basis.

Similarly, for fuel, it's the same story. Coaching drivers to operate a little more fuel efficiently, and then optimizing the assets and the workloads and the routes to be fuel efficient, can save these customers millions of dollars a year.

So that ROI case is really strong and that pipeline conversion remains strong in spite of what Dominic mentioned where there is a bit of elongation on the sales cycle. So, I think we feel good that we've got a compelling value proposition. The win rates continue to be stable, and it's a very, very large market. We're talking about tens of millions of commercial vehicles here in the US, even more in Western Europe.

So, I think just in terms of our core market and our core value proposition to ROI is there and customers are very much tuned for this as they think of ways to save money in this environment.

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**Dominic Phillips**

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

A

And Keith, its Dominic. I'll answer the second part. I think for the large deals, Q4 is typically our largest net new ACV quarter in terms of seasonality, so that definitely played a role in this. But we've been making investments in

the enterprise segment, our large customer segment, for many years now and we're starting to find the yield on some of those investments.

We've made a lot of investments in R&D. So making sure that the platform is enterprise grade, building the required integrations, as we talked about, on average, these customers are using six integrations now up from four, that it's got the right scalability and flexibility and security, all built into the product are big time investments that we've made for these large customers.

And then we've made a lot of sales investments as well. The go-to-market motion is very different than mid-market. The sale cycles can be a lot longer and we've made a lot of investments there to go along with R&D investments and we're now starting to see some real consistent results out of the largest customers.

**Keith Weiss**

*Analyst, Morgan Stanley & Co. LLC*

Excellent. Thank you, guys.

Q

**Michael Chang**

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

Great. Thanks, Keith. Comes from Matt Pfau at William Blair, followed by Alex Zukin at Wolfe.

Matt, are you there? Okay. Let's keep moving. So our next question, let's go to Alex Zukin at Wolfe.

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**Alex Zukin**

*Analyst, Wolfe Research LLC*

Hey, guys. Can you hear me okay?

Q

**Michael Chang**

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

Yeah, Alex.

A

**Sanjit Biswas**

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

Yes.

A

**Alex Zukin**

*Analyst, Wolfe Research LLC*

Congrats on another excellent quarter. I guess one thing that struck me, Sanjit, from both the letter and the script, your comments about the insurance opportunity were really interesting. And I just want to unpack that a little bit and understand about how much that could become almost a channel opportunity or a partner opportunity for Samsara, almost like a force multiplier. Maybe just talk to us about the current go-to market with that industry, with that channel? And is this an area that you can partner with in the future to kind of force multiply?

Q

**Sanjit Biswas**

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

Hey, Alex. Happy to chat about that. So insurance is an exciting area for us because we're so closely aligned with these insurers. Our products are helping these physical operations customers reduce risk out in the field. And in

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the case of exoneration, it helps resolve claims much more quickly. So we have a number of large insurers that have signed up with us. The logos are available in the Samsara App Marketplace if you want to take a look.

And to kind of get to your question, it is absolutely an important area that we're investing in from a channel and partnerships perspective. Typically speaking, insurers don't sell this kind of technology or resell the technology. So, today, they're mostly referral partners of ours, but the partnerships are going really well. We're getting introduced to both large and midsized fleet customers and other types of customers through that.

So I think it's an area we're going to continue to invest in because there's so much value and value alignment.

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**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Perfect. And then, Dom, on the bottom line, you guys continue to find efficiencies in the business for multiple quarters now. The incremental margins continue to look solid. Maybe just lean in a little bit about your expectations for sales hiring and quota-carrying capacity for the coming year? And also, maybe just remind us, at least from a – I know it's for illustrative purposes, but if you exclude the hardware cost associated with the business, what would kind of the adjusted free cash flow margin be in that case and how to think about that metric over the – even exiting next year?

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**Dominic Phillips**

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

A

Sure. So I think we made a lot of investments in overall head count in FY 2023, growing 40% year-over-year while being able to improve our overall ARR per employee. As I look into FY 2024, we continue to hire. We have more than 200 or around 200 open recs on our website right now. And so, I expect the overall head count growth to still be going into next year and a subcomponent of that will obviously be sales capacity.

We really look at productivity metrics to really drive our investment decisions. If we see productivity, net new ACV per ramped rep improving, that gives us confidence that we can continue to hire. If we see it go down, then that means we probably need to pull back and we're cutting territories and accounts too quickly.

So, we'll really continue to use that data to monitor how we're going to hire in the next year, but I do expect that we'll continue to build more capacity that won't necessarily help us in FY 2024, but more so in FY 2025, given the four quarter-ish ramp for new sales reps.

On your second question, so about 21% of our revenue in Q4 was spent on inventory, on our IoT devices and on inventory. And so with a minus 3% free cash flow margin, our free cash flow margin, [ph] sans (00:27:30) dollars going out the door for inventory would have been positive 18%. So, we recognize that, obviously, a significant component of our service are IoT devices, but I think that that goes to show investors just the overall kind of leverage in this business longer term and the efficiency in which we're operating.

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**Alex Zukin**

*Analyst, Wolfe Research LLC*

Q

Perfect. Thank you, guys. Congrats again.

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**Dominic Phillips**

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

A

Thank you.

**Michael Chang**

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

A

Let's go back to Matt Pfau at William Blair, followed by Derrick Wood at TD Cowen.

**Matthew Pfau**

*Analyst, William Blair & Co. LLC*

Q

Hey. Hey, thanks. Wanted to ask about being used more and more as a system of record with your customers. As customers use more APIs and incorporate you more on your workflows, I assume that makes them stickier, but what are you seeing in terms of potential monetization opportunities as that happens?

**Sanjit Biswas**

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

A

So, Matt, I'll take that. So we are seeing a lot of momentum. We talked about this in the Shareholder Letter. In terms of API calls, we had about 50 billion API calls last year and that increased 4x year-over-year. And overall, the other software-based features that we've added to the system, whether it's workflows or digital documents are also growing 60% and 70% year-over-year. So, there's a lot of value there for the customer.

Today, it's made available as part of the license. We are constantly looking at how we price and package the platform to best align with what our customers need and how they want to consume it. But today, there's no plans to break that out and monetize it separately. We're trying to drive adoption and really get customers to get as much value from this data as possible because that's ultimately what makes us essential as a system of record, is to be that source of data to have a high-quality clean data, and that has value for the customer and then we can also do things like better train AI models and other benchmarking data sets behind the scenes with that.

**Matthew Pfau**

*Analyst, William Blair & Co. LLC*

Q

Great. And along those same lines, are you seeing OEM integrations become more important? I know that was called out in the largest deal that you signed in the quarter.

**Sanjit Biswas**

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

A

We are. So, on the OEM front, we're seeing OEMs of all different kinds of equipment integrate connectivity directly into the assets themselves. And so that's just been a long-term build for us, is partnering with OEMs, whether it's light-duty, heavy-duty, other kinds of equipment manufacturers like John Deere, Caterpillar and others. So that's an area that I think will take a couple of years to really get going, but it's something that we are starting to see the beginnings of.

**Matthew Pfau**

*Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

**Michael Chang**

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

A

So our next question comes from Derrick Wood at TD Cowen, followed by Matt Hedberg at RBC.

**Derrick Wood**

*Analyst, Cowen and Company*

Q

Great. Hey, guys. Thanks. It's not that common to see new customer mix rising in this kind of economy where it's often harder to sign new deals, especially ones that are larger in size. So that's great to see those metrics. And I just wanted to try to unpack that a little bit more. I mean, obviously, we know your value prop, your ROI is so compelling, but it does seem like new customer activity at markets accelerating. And just wondering, is that more brand recognition? Is that more feet on the street and effective selling? Is that more legacy solutions aging out? If you could just highlight a couple of key factors that would be great.

**Dominic Phillips**

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

A

Yeah. Hey, Derrick, it's Dominic. I think as you mentioned, in the quarter, 51% of net new ACV came from new logos, 49% came from expansion, so it was very balanced. But in Q4 of last year, it was only 44% of net new ACV was new logos.

I think maybe just adding a little bit of color. Our overall goal is just to drive more net new ACV and increase ARR. We don't, at this point, incentivize sales reps differently for new logos versus expansions. We just view it as like a dollar is a dollar. So, you saw Q4 was a really strong new logo quarter. In Q3, it was flipped. Expansions were a little bit stronger. And so we're really focused on just that overall balance. And right now, over the last several quarters, we've had a really good balance, a good – almost half coming from new logos and the other half from expansions pretty consistently.

**Derrick Wood**

*Analyst, Cowen and Company*

Q

Got it. Makes sense. And I guess, Dom, another one for you. I saw your comments around seasonality with respect to the ARR build and how you're expecting it to be a bit more backend loaded because of engaging more with larger companies that I suspect have more seasonal budgets. But this has been a motion. It's been pretty consistent for you guys for a while. So, what's different for this year? And perhaps does it contemplate the macro and longer sales cycles? Is that part of the reason for more backend loaded?

**Dominic Phillips**

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

A

No, I think it's just – it's more of the first point that you made. If you look at just the ARR mix coming from \$100,000-plus customers is now at 48%, a year ago it was at 45%. And so, we would expect that to continue, that cohort of customers is growing a little bit faster. And at the same time, we've talked about deemphasizing customers that pay less than \$5,000 of ARR, where you see more steady bookings throughout the year. It's much more consistent.

And so as we expect that trend to continue into FY 2024, that would lead to a little bit more backend ARR, net new ARR, linearity than what we've seen. We don't expect it to be extreme, but that's a trend that we expect to continue to happen.

**Derrick Wood**

*Analyst, Cowen and Company*

Q

Great. Congrats on a great quarter. Thanks.

**Michael Chang**

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

A

So our next question comes from Matt Hedberg at RBC, followed by Kash Rangan at Goldman Sachs.

**Matthew Hedberg**

*Analyst, RBC Capital Markets LLC*

Q

Hey, guys. Thanks for taking my questions. I'll offer my congrats as well. Sanjit, you called out the \$1 million state government deal as well as a bunch of other public sector wins in your Shareholder Letter. That's super exciting to me. I guess my question is, how big of a vertical is public sector for you? And I think once you win one large state contract, it looks almost like a standardization. Could that create a bit of a domino effect, as in what's good for one state could be good for the others?

**Sanjit Biswas**

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

A

Sure, Matt. So, we are excited about governments because they have large complex physical operations. And like you said, there are multiple states out there. So as one state sees value from what we do and become referenceable, it is something that is applicable across the board.

Now the challenge with public sector is the buying cycles are a little bit longer. You do need to get on some of these state contract vehicles. And then they have also different pieces of software they integrate with that we don't see as often out with commercial customers. So we're in the process of building out our public sector team and also all the sort of necessary integrations. But for us, we believe it could be a top 10 industry vertical for us, and we're excited to continue to invest.

And within government, I should highlight, it's really state and local as the largest opportunity for us because the operations are so distributed. And that's not just here in the US, but also in international markets: Canada, Mexico, Western Europe as well.

**Matthew Hedberg**

*Analyst, RBC Capital Markets LLC*

Q

Fantastic. And then, Dom, for you, I know you guys signed longer-term contracts. Maybe looking back to some of those contracts from five, six years ago that are renewing, can you talk about sort of the renewal yield you're getting on these because I think, obviously, you've got a lot more opportunity now, a lot more product than you did back then? How are those been trending, in what is obviously a tighter economy today?

**Dominic Phillips**

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

A

Yeah. I mean renewal motion was newer for us in FY 2023, given that we're eight years old and we signed these three- to five-year contracts. The amount of renewal ACV in FY 2023 was almost 5x what it was in FY 2022. So, we're learning a lot. Fortunately, we're seeing really good renewal rates. They're very consistent. And anecdotally, we're seeing that as well, as we go in and replace legacy incumbents, we're replacing some solutions that have been embedded for decades. And so we know that we can get in there and add value and would expect to continue to see strong renewal rates. And I think we're doing a good job of terms and price increases and all of those things that go into the renewal conversation. And we're very pleased with the performance of that in FY 2023.

**Matthew Hedberg**

*Analyst, RBC Capital Markets LLC*

Thanks a lot, guys.

Q

**Michael Chang**

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

Our next question comes from Kash Rangan at Goldman Sachs, followed by Kirk Materne at Evercore.

A

**Kash Rangan**

*Analyst, Goldman Sachs & Co. LLC*

Great. Thank you very much. Congrats on the quarter. One for Sanjit, one for Dom. Sanjit, when you look at these customer workflows that are increasingly getting more sophisticated, there's a lot more documentation being stored on the system. Your product is getting deeper into aspects of the enterprise applications topology within your customers. So is there – are these workflows leading you to new product opportunities or pricing models that could be somewhat pegged to consumption, although the world consumption is not a great thing on Wall Street these days? But regardless, what are these workflows leading you into other avenues of growth within your customer base?

Q

And one for you, Dom, when you look at the growth of the company, it's, in part, driven by multiple vectors, but one of which is new customer acquisition. So, if you want to keep up the growth rate, you got to ramp up the new customer acquisition. Is there any way – and that entails, obviously, working capital requirements with the inventory build-up, et cetera. Is there a way you could get the best of both worlds, you could still continue to drive growth and not have to slow down growth in order to attain the free cash flow levels that you are capable of generating? Or is there no way around it and you have to keep growing and ultimately, at some point, when things do settle down way into the future, that we should be able to get the scale because the inventory requirements will become smaller as a percentage of the recurring ARR base? Thank you so much.

**Sanjit Biswas**

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

Hey, Kash, this is Sanjit. I'll take the first part and it'll actually link, I think, maybe to the second part of your question. So, on the workflows front, we are seeing great traction with the digital workflows that we offer to these customers. We talked about this in the Shareholder Letter and the prepared remarks. We saw about 110 million driver vehicle inspection reports get filled out digitally using smartphones and tablets. That's 70% year-over-year. Digital documents, we saw about 23 million digital documents, again, used through the app. So that's up 60% year-over-year.

A

So, we do see that as a growth vector for us, driving usage engagement using these apps. And the reason I highlight that is it's not actually tied to necessarily hardware. It's another area of value. And these companies are basically moving from pen and paper, clipboards to digital process. So that's an exciting area for us to deliver value to the customer.

Today, we're focused on the areas that I talked about earlier, but we are thinking more generally about, can these workflows work at the beginning of a shift or an end of a shift. Can they be used for safety? Are there other use cases and applications? So, you'll see us continue to invest there. And at some point, we may break that out. Today, it's available as part of our existing product family. But if we start to see usage that gets decoupled from the asset-based licensing model that we have – that we talked about earlier, the three- to five-year seat-based SaaS kind of traditional model, we might price it or package it differently, but we have no plans to do that yet.

**Kash Rangan**

*Analyst, Goldman Sachs & Co. LLC*

Got it.

Q

**Dominic Phillips**

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

And yeah, I'll take a crack at your second question here. I would just – and feel free to follow up if I'm not addressing it directly. But I think I would just view growth in free cash flow at this point is relatively decoupled. We are growing as fast as we can and we're putting inputs into the business to drive growth as quickly as we can. And at the same time, we're getting incredible leverage out of the business in driving working capital improvements. Those things are relatively decoupled, and would expect that to be the case going forward. We're going to continue to get more and more leverage out of OpEx and we're doing a better job of optimizing our working capital, including the dollars that we spend on IoT devices and supply chain and cash collections and the like. So we think that we can continue to grow fast as we're scaling while continuing to drive more and more leverage out of the business.

A

**Kash Rangan**

*Analyst, Goldman Sachs & Co. LLC*

Thanks so much.

Q

**Michael Chang**

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

Our next question comes from Kirk Materne at Evercore, followed by [ph] David Unger (00:40:01) at Wells Fargo.

A

**Peter Burkly**

*Analyst, Evercore Group LLC*

Yeah. This is actually Peter Burkly on for Kirk. Congrats on the quarter and appreciate you taking the time here and take some questions. So, Dom, maybe just a couple of quick ones for you. First, I'm just curious, I know it's in your Shareholder Letter, NRR for the large customer segment sort of stand above that 125% range, but then forward-looking next year, sort of assuming a slight decline down to the 120%.

Q

So, I'm just curious if this is mostly about a continued choppy macro or if there's a law of large numbers dynamic at play. Any color you could add there? And then just my second one would just be, you also mentioned you have a sort of less conservative approach to guidance this year, while it's still being adequately derisked if the macro were to deteriorate. So just wondering if you could add any color there. I mean is this assuming a change on top of funnel or better conversion rates? Or just curious in terms of that guidance methodology what's changed.

**Dominic Phillips**

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

Sure. Yeah. So, on the net retention one, for Q4, we are above our FY 2023 target of 115% for core customers and 125% for \$100,000-plus. As you mentioned, we are setting our target for FY 2024 at 115% and 120%. And it is really just given the macro uncertainty and some of the elongated sales cycles that we experienced in FY 2023, which could have an impact on the timing of expansions.

A

I would also just echo the point that I made earlier that we don't actually incentivize sales reps differently for new logos or for expansions. Q4 happened to be a really strong new logo quarter. Q3 was a stronger expansion

quarter. And so we're really just looking at the overall balance. And again, it was 51% of net new ACV came from new logos, 49% from expansions in Q4. And so we're seeing good balance and that's ultimately what's important to us.

On the conservatism in the FY 2024 guide comment that was made in the Shareholder Letter in the prepared remarks. Really, what I'm saying is if you go back to like FY 2023, we initially guided 30% to 32% revenue growth and we ultimately finished that 52% growth. So that entailed beats of 8%, 7%, 9%, 9% in Q1, Q2, Q3 and Q4. What we're saying for FY 2024 is we're starting the guidance at 28% to 30%. We will not have those same level of beats in FY 2024. So, it is less conservative than that initial FY 2023 guide. There is a lot of, obviously, macro uncertainty. If we see a lot of those headwinds, we won't need to reduce our guidance. That is why we call it de-risked. We do not think we will go below 28% to 30%. If we don't see those headwinds, we will have the opportunity to move that guidance up throughout the year, similar to what we did in FY 2023, but we do not expect the same magnitude of beats.

And so that's really the point that I was trying to drive, so more in the kind of low to mid-single-digit revenue beats on a quarterly basis if we do not see any sort of macro uncertainty.

**Peter Burkly**

*Analyst, Evercore Group LLC*

Makes sense. Thanks, Dom.

Q

**Michael Chang**

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

Our next question comes from [ph] David Unger (00:43:16) at Wells Fargo, followed by Alexei Gogolev at JPMorgan.

A

Hi. Can you hear me okay?

**Michael Chang**

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

Yeah, we can hear you.

Q

Okay. Thanks. Just a couple for me. Can we just talk about the competitive environment? Any changes you're seeing over the past year? And then just looking ahead to the long-term with efficiency gains, just which line do you think could be the most meaningful opportunity for you for the long-term? Thank you.

**Sanjit Biswas**

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

So, [ph] David, (00:43:45) I'll take the competitive question. I would say the competitive environment remains pretty consistent with what we've seen. Most of our customers are familiar with the number of the legacy incumbents that have been in this marketplace for some time. They offer point solutions, products that either just do GPS tracking or just do driver safety and so on. And we're differentiating ourselves by being a modern

Q

A

platform, a platform where the majority of our customers now are using multiple apps, which is exciting to see. And it's also – we're differentiated in the sense that we're open in the number of integrations that we offer, which is now up over 220.

So just a kind of quick summary there is, I would say, the competitive environment remains very consistent with what we saw in previous years.

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**Dominic Phillips**

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

A

And I'll take the second question kind of on the leverage point. I would say, again, gross margins, we think longer term can be in the mid-70s. I think through the IPO and the long-term model, we had 74% to 76%. So that's where we likely see that plateau out. I think the most of the – again, the leverage in the business is really going to come from OpEx. Sales and marketing is our largest area of spend. As more and more of our base renews, the cost of sale on renewal is like it is for most subscription businesses is significantly lower and so we will get a lot of natural leverage out of that. R&D is an area I don't expect much leverage there in FY 2024, a lot of investments to make. We'll get more and more leverage as we scale. Obviously, as a first year public company, there was an inflection in public company costs. I don't expect those costs to grow at the same rate as revenue in future periods.

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Q

Excellent. Congratulations. Thank you.

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**Michael Chang**

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

A

Our next question comes from Alexei at JPMorgan, followed by Dan Jester at BMO.

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**Alexei Gogolev**

*Analyst, JPMorgan Bank International LLC (Moscow)*

Q

Thank you, Mike. Can you hear me okay?

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**Michael Chang**

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

A

Yeah, we can hear you.

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**Alexei Gogolev**

*Analyst, JPMorgan Bank International LLC (Moscow)*

Q

Great. Thank you. I was wondering if you could provide a bit more detail on the relationship that you have with your suppliers from Taiwan. Maybe give us some details how many there are and if the relationships are exclusive? But more importantly, have you considered how you're going to meet customer demand in case of another supply constraint of IoT devices, should we see geopolitics escalate further in Taiwan?

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**Sanjit Biswas**

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

A

So, Alexei, I'll take that one. This is Sanjit. We work with multiple suppliers and these are basically large ODM manufacturers that manufacture product for multiple customers, and it's a thriving ecosystem. So, the good news about that is we have a selection of multiple suppliers and multiple manufacturers we can work with. And we also

maintain direct relationships with the key component suppliers. In other words, the key chipset suppliers that we use upstream. So, in that sense, we have pretty good visibility. We have very strong relationships. And while there's this geopolitical uncertainty, we're managing through it by relying on these strong relationships that we have. And we've actually seen circumstances improve quite a bit over the last 12 to 18 months.

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**Alexei Gogolev**

*Analyst, JPMorgan Bank International LLC (Moscow)*

Q

Great. Thank you, Sanjit, for that. And could you also provide some thoughts on your productivity per employee? I mean completely see that it has significantly increased from three years ago. But versus last year, based on the figure of 40% growth, it looks like it remained broadly unchanged. That's ARR per employee. So just wondering when you think that added sales capacity and improving productivity is going to kick in?

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**Sanjit Biswas**

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

A

Yeah, I'll take that. So, yeah, ARR per employee was up, again, 3x over the last three years and was up in FY 2023 over where we ended FY 2022. We did grow head count in FY 2023 by 40%. And the subcomponent of that, that is sales capacity or that will drive more sales capacity, we'll add more productivity in FY 2024.

I think it's an interesting proxy that we use to think about our business and really in just are we hiring at the right pace, so starts to go really negative. I think it makes us question, are we hiring too quickly? But, obviously, all head count cost is not created equal. I think we've started to do a much better job of hiring in lower cost regions and really broadening our aperture of where we're hiring from. And so not all head count cost is created equal, but it is just a high-level proxy that we use to ensure that we're hiring at an appropriate pace.

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**Alexei Gogolev**

*Analyst, JPMorgan Bank International LLC (Moscow)*

Q

Great. Thank you.

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**Michael Chang**

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

A

All right. Our last question today comes from Dan Jester at BMO. Dan?

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**Daniel Jester**

*Analyst, BMO Capital Markets Corp.*

Q

Great. Thanks for taking the question. Just two real quick ones. First, obviously, a lot of improvement in profitability and the Rule of 40 metric, which you mentioned. I guess what's going to get you comfortable with saying that that's the new framework that we should be thinking about? Is it just scale? Is it macro? Like, what needs to get put in place for comfort there?

And then secondly, on the sort of the API growth that you mentioned, especially along with large customers, is there any similarities in terms of where they're sort of investing most in the ecosystem from an apps perspective? And what are you doing in the year ahead to sort of make sure the ecosystem growth is as strong as possible to keep that dynamic growth going? Thanks.

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**Dominic Phillips**

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

A

Yeah. I'll take the first one on Rule of 40. So, I think it's important to understand that free cash flow is a portion of that calculation and it's very seasonal for our business. So, it will likely be worse in the first half of the year and it will improve in the second half of the year, similar to what we saw in FY 2023. That's why we're confident that we can get to adjusted free cash flow breakeven in Q4. And so, I think as we move beyond that, and we're starting to see free cash flow at that level more consistently, that will obviously have a bigger impact on Rule of 40 being able to also see that metric at or above 40% consistently. So again, more likely in the back half of the year and we do have a few additional expenses that come through cash outflows in the first half of the year.

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### Sanjit Biswas

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

A

Great. And I'll take the API growth question. So, as I mentioned earlier, we saw 50 billion API calls in the last year, and that's up 4x year-over-year. So, a lot of what we're doing today is to simply enable our customers to take advantage of these APIs and get more value from the data. Many of these physical operations companies are early in their digital transformation lifecycle. So, they're now starting to adopt business intelligence tools and tie this real-time data into their ERPs and improve their end customer experience through real-time notifications, those sorts of things. So, we have some great teams internally that help with that enablement process early in the customer journey.

And then we are also continuing to invest in partnerships. So, as I mentioned earlier, we have about 220 partners on the Samsara App Marketplace. Some of those are insurance companies, which we talked about as well. We have payroll system providers, ERPs, OEMs that we've integrated with to get even more data. So, we're going to continue to invest in technology partnerships, but I think, for us, the real unlock has been that the customers are now waking up to this opportunity are starting to really pull on how do we get this API data and how do we make the most use of it.

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### Daniel Jester

*Analyst, BMO Capital Markets Corp.*

Q

Great. Thank you very much.

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### Michael Chang

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

So, this concludes the question-and-answer portion. Thank you, all, for attending our Q4 fiscal year 2023 earnings call. That was a great conversation.

This past quarter capped off a year of durable and efficient growth for the company and reinforced the strength of Samsara's Connected Operations Cloud and continued customer momentum. We're only getting started and we look forward to updating you on our progress as we pursue the big opportunities that lie ahead.

Before I let you go, I have a few short announcements. First, we'll be attending the Morgan Stanley Technology, Media and Telecom Conference on March 6 and the Wells Fargo Software Symposium on April 12. So, we hope to see you in person at one of those events.

Second, we are hosting our Investor Day on June 22 in Austin, Texas. Please send an e-mail to [ir@samsara.com](mailto:ir@samsara.com), if you're interested in attending in person. For those who prefer to attend virtually, our IR website will have a web link to a live broadcast.

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

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