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Samsara, Inc. (IOT)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Michael Chang

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

Good afternoon and welcome to Samsara's First Quarter Fiscal 2024 Earnings Call. I'm Mike Chang, Samsara's Vice President of Corporate Development & Investor Relations.

Joining me today are Samsara Chief Executive Officer and Co-Founder, Sanjit Biswas; and our Chief Financial Officer, Dominic Phillips.

In addition to our prepared remarks on this call, additional information can be found in our Shareholder Letter, press release, Investor Presentation, and SEC filings on our Investor Relations website at investors.samsara.com.

The matters we'll discuss 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, June 1, 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, similar discussions will include our first quarter fiscal 2024 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 in our press release and Investor Presentation.

We'll make opening remarks, dive into highlights for the quarter, and then open up the call for Q&A.

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

Sanjit Biswas

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

Thanks, Mike, and thank you, everyone, for joining us today.

Samsara delivered another strong quarter of durable and efficient growth. We ended Q1 with ARR of over \$850 million, growing more than 40% year-over-year. We also achieved Rule of 40 for the third consecutive quarter.

Samsara's vision is to empower the industries that power our world, and we continue to see strong adoption of digital transformation for physical operations. Large customer wins in particular are fueling our momentum. In Q1, we added a record 138 large customers, bringing us to a total of 1,375 customers with over \$100,000 in ARR, growing 53% year-over-year. This includes Fortune 1000 companies with large and complex operations such as United Rentals, Iron Mountain, and Werner Enterprises.

Our customer feedback loop is central to our success. Samsara customers are the backbone of the global economy and are leaders in diverse industries like construction, field services, manufacturing, and retail. During

the quarter, I was on the road with our executive leadership team in the US and Europe meeting with some of our largest customers. Our technology is driving meaningful business impact for them, and they are asking us to double down on a few things. First, AI-based safety technologies to reduce risk across operations; second, digital workflows to increase efficiency for front-line workers; and last, more platform and data integrations to drive higher asset utilization in the field.

We're hearing this across the board, not just in a single industry. In this current environment, our customers are prioritizing investments in solutions that help control costs and deliver rapid ROI by running smarter, safer, and more efficient operations.

Now, I'd like to focus on how we are using AI to deliver rapid ROI and transform customer data and the business impact. AI has been core to how we built our product over the last five years, and our data moat is one of our key competitive advantages. The more operational data we unlock and transform into powerful insights for our customers, the bigger the business impact.

I'd like to bring this to life with a customer example. One of our customers is a global leader in storage and information management services that serves 95% of the Fortune 1000 and has more than 25,000 employees. They're focused on investing in software that delivers a high business impact and quick ROI. This organization uses our Vehicle Telematics application for asset location and maintenance and is expanding to our AI-powered Video-Based Safety application to improve workplace safety, reduce insurance premiums, and lower corporate risk.

Based on results from our pilot study, we anticipate our platform can help them achieve more than a 3x annual ROI, which is roughly a four-month payback period. By improving their safety program, we expect to see a 54% reduction in safety events, a 91% reduction in mobile usage, and a 97% reduction in no seat belt usage. On top of reducing accidents and creating a safer work environment, they're also gaining a competitive advantage when recruiting talent in a challenging labor market. These types of results are always amazing to see, and we're excited about the opportunities where AI can unleash the power of data to deliver value for our customers.

I'm amazed by the improvements AI has made on the safety, efficiency, and sustainability of our customers' operations. The magnitude of AI's impact on the world of physical operations is clear, and Samsara is positioned to be on the forefront of this technological revolution because of three unique competitive advantages.

First, we continue to amass a massive operational data asset. Approximately 6 trillion data points flow annually into our Connected Operations Cloud and it continues to grow in size and sophistication. The combination of diverse assets and data types across different industries, geographies, and customer sizes makes our data asset truly unique. This allows us to train powerful AI models to unlock valuable insights for our customers.

Second, we've invested in the infrastructure to rapidly deliver AI features. We've built capabilities to capture and curate structured and unstructured data, train and evaluate models, and operate across tens of thousands of customers both in our cloud and at the edge with IoT devices.

And third, our product innovation is powered by incredible customer feedback loop. This allows [audio gap] (00:06:04) critical domain-specific problems, capture ground truth data, and partner with them to test, validate, and, ultimately, deliver AI-powered solutions on our platforms. .

We're also using data-driven insights to help our customers with their ESG goals. Focusing on the S in ESG for social impact is again all about safety. A top priority for our customers is getting their employees home each day

to their families, especially as many work in dangerous physical environments. One of our customers, Liberty Energy, is a great example of this.

Liberty is a leading North American oilfield services company. They use Samsara's Video-Based Safety for proactive driver coaching and to get enhanced visibility in the cab, which they feature in their most recent ESG report. They put millions of miles on their fleet of vehicles each year, making driving the highest risk activity they undertake. By using Samsara, Liberty realized a 50% reduction in vehicle accidents and saved \$0.5 million dollars in incident-related costs.

Let's now turn to the E in ESG for environmental. Our customers are faced with a growing demand from their end customers, investors, employees, and policymakers to have more sustainable operations. Lanes Group is a great example of a customer using Samsara to reduce emissions. Lanes is a leading wastewater utility solutions provider and the largest independent drainage specialist in the UK. In their most recent Sustainability Report, Lanes shared that using Samsara helped reduce fuel consumption by improving driving behavior for their entire fleet. This allowed them to reduce overall carbon emissions even as their fleet continues to grow. It's also worth mentioning that Lanes has adopted Samsara's Video-Based Safety and decreased the frequency and severity of accidents, they lowered their insurance premiums, and reduced the cost of each claim, generating an annual insurance savings of £250,000 per year.

We are committed to building a safer and more sustainable world together with our customers and are proud of the progress as we continue on this important journey.

Our customer momentum reflects the large market opportunity for digitizing the world of physical operations. As we head into our next chapter of growth, I'm excited to announce Lara Caimi is joining Samsara as our first President of Worldwide Field Operations. She joins us from ServiceNow where she served as Chief Customer and Partner Officer, and prior to that as the Chief Strategy Officer. I'm excited to welcome Lara to join us in the next phase of growth.

I also wanted to share the news that our Chief Revenue Officer, Andy McCall, will be retiring at the end of the year and is staying on as an advisor until that time to help us with the transition. I've been fortunate to partner with Andy over the last six years as he's helped build the sales team at Samsara into a world-class organization. All of us at Samsara wish Andy the best in his well-deserved retirement.

It's been another exciting quarter of durable and efficient growth for Samsara, and we are grateful for our partnership with our customers and the impact we're able to make together. I also wanted to thank all of our Samsarians, customers, partners, and investors for joining us in making this journey to digitize physical operations possible. We're excited to continue our partnership at our second annual customer conference, Samsara Beyond, from June 21 to June 23.

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

Dominic Phillips

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

Thank you, Sanjit.

Q1 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 key reasons.

First, we have a subscription business model that produces highly predictable revenue, and we price subscriptions based on the number of physical assets versus head count-based pricing, resulting in a lower risk of ACV contraction if our customers' hiring slows or contracts. Second, our customers deploy Samsara to generate hard ROI savings, and many experience a quick investment payback period measured in months. And third, we primarily sell into the operations budget, which is generally large and nondiscretionary for our customers.

Q1 ending ARR was \$856 million, growing 41% year-over-year. Within this, we added \$61 million of net new ARR, representing 24% year-over-year growth or 4 percentage points of year-over-year growth acceleration at a larger scale. Additionally, Q1 revenue was \$204 million, growing 43% year-over-year.

Several factors drove our strong top line performance in Q1. First, we continue to focus on serving large physical operations customers. We now have 1,375 \$100,000-plus ARR customers, a record quarterly increase of 138 or 53% year-over-year growth. 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 49% of total ARR, up from just 45% one year ago.

Second, this was a strong customer expansion quarter. 60% of Q1 net new ACV came from expansions to existing customers, our highest quarterly mix ever, and up from 51% in Q1 last year. 8 of our top 10 net new ACV deals in Q1 were customer expansions, including a large \$1 million-plus expansion to a leading national distributor of aftermarket automotive replacement parts. Three years ago, this customer landed with Video-Based Safety and Telematics for just their heavy-duty vehicles, which make up less than 5% of their entire fleet. And in Q1, the customer adopted Samsara across their entire light-duty fleet as well to improve driver behavior, reduce accidents, and lower insurance costs.

And third, while our core business drove most of our Q1 performance, we executed well across several new frontiers. For example, 15% of Q1 net new ACV came from non-vehicle applications, primarily from strength in Equipment Monitoring, which ended the quarter at approximately \$100 million of ARR. Additionally, a record 17% of Q1 net new ACV came from non-US customers, including a top 10 expansion for one of Canada's largest grocery retailers. And lastly, 83% of Q1 net new ACV came from non-transportation customers with particular strength in utilities, energy, field services, construction, and public sector.

In addition to delivering strong top line growth, we continue to focus on driving operating efficiency improvements across our business as we scale. Q1 gross margin was 73%, approximately flat from Q1 FY 2023, and our gross margin has remained above 70% for 11 consecutive quarters. Q1 operating margin was negative 9% compared to negative 18% in Q1 of FY 2023, an improvement of 50% or approximately 9 percentage points year-over-year driven by leverage across all functions. This was our 12th consecutive quarter of improving both operating margins and operating profit year-over-year. And Q1 adjusted free cash flow margin was negative 1% compared to negative 36% in Q1 FY 2023, an annual improvement of 35 percentage points or \$49 million, primarily from improved operating leverage and continued working capital improvements.

Efficient growth continues to be a priority as demonstrated by a 42% Rule of 40, our third consecutive 40% plus Rule of 40 quarter. 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.

Okay. Now, turning to guidance. For Q2 FY 2024, we expect total revenue to be between \$206 million and \$208 million, representing between 34% and 35% year-over-year growth, operating margin to be approximately negative 9%, and EPS to be between negative \$0.02 and negative \$0.02, assuming \$532 million weighted average shares outstanding. Based on our Q1 results and improved outlook for the remainder of FY 2024, we're raising our full-year revenue guidance to be between \$866 million and \$874 million, or between 33% and 34% 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 also improving our full year operating margin guidance to negative 5% or an implied FY 2024 operating income improvement of [ph] \$16 million (00:15:03) at the midpoint of guidance. And we expect EPS to be between negative \$0.02 and \$0.00, assuming 535 million weighted average shares outstanding for the full year. And finally, we included a few additional modeling notes in our Shareholder Letter.

So, to wrap up, we are very pleased with our first quarter of FY 2024. We are digitizing the world of physical operations and helping our customers become safer, more efficient, and more sustainable. We continue to be committed to driving durable growth while also achieving operating efficiency improvements on our path to profitability.

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

QUESTION AND ANSWER SECTION

Michael Chang

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

A

Thank you, Dominic. We will now open the line up 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 Matt Pfau with William Blair followed by Matt Hedberg with RBC.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Hey. Great. Thanks for taking my question. Wanted to just ask the really strong first quarter, anything that was, I guess, non-normal in the quarter? And on the demand environment, it seems like it's holding up quite well, but any change there from the fourth quarter that you saw? Thanks.

Dominic Phillips

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

A

Hey Matt, it's Dominic. I would say nothing really stands out as being unusual with Q1. Again, really strong customer demand. I think the hard and fast ROI and the early innings of digital transformation in physical operations really continue to drive strong customer demand. I would say that the buying environment is similar to kind of what we started, call it, in the middle of last year and that persisted into Q1.

We were seeing really strong pipeline and conversion of the pipeline, but the sale cycles remain a little bit more elongated than they were historically. Customers wanting to do longer trials, wanting to really nail down the ROI analysis, running approvals higher up into the organization, but nothing that stands out terribly different than what we saw in Q4.

Michael Chang

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

Great. Our next question comes from Matt Hedberg with RBC followed by Alex Zukin with Wolfe.

A

Daniel Bergstrom

Analyst, RBC Capital Markets LLC

Hey. It's Dan Bergstrom from RBC [ph] on (00:17:38) for Matt Hedberg. Thanks for taking our question. So, you took a nice hire here with Lara and good to see Andy staying on through year-end. Any more color around the change there? Why now? Is it just getting the right fit to scale to the next level?

Q

Sanjit Biswas

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

That's exactly right. This is Sanjit by the way. We were excited to find Lara. We ran a search for several months. Andy let us know well in advance about his plans to retire. And so, we were able to run an extensive search.

What we love about Lara's background, she's been very customer facing in her time at ServiceNow. She started out as a Chief Strategy Officer. She was later the Chief Customer Officer. She also saw them scale from roughly \$1.5 billion in ARR to over \$7 billion. And so, as we prepare for this next chapter of growth for Samsara, we thought she'd be a great asset to bring into the team.

A

Dominic Phillips

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

I would just add one additional point, and I think it's important to note that all of the senior leaders in the sales organization that are or going to report into Lara in this role are folks that have been with the company for many years, some more than five years. And so, we have a lot of continuity across all of the individual go-to-market functions that are going to report into Lara.

A

Daniel Bergstrom

Analyst, RBC Capital Markets LLC

Great. Thanks. And then, appreciate the additional color around Equipment Monitoring ARR at \$100 million. Nice to see that. Any more details there, growth rates, traction, etcetera? And then, maybe anything else from a product perspective this quarter to point out beyond those core safety and telematics products.

Q

Sanjit Biswas

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

Yeah. Nothing really to call out other than it's been continued progress on Equipment Monitoring. So, that's now our third product category that add more than \$100 million. We will share a little bit more detail at our Investor Day coming up in a few weeks. But suffice it to say that Equipment Monitoring has been growing quite quickly. But we're seeing really good growth, frankly, across all of our different product categories.

A

Daniel Bergstrom

Analyst, RBC Capital Markets LLC

Thank you.

Q

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

A

Great. Our next question comes our next question comes from Alex Zukin with Wolfe followed by Kash Rangan with Goldman Sachs.

Alex Zukin*Analyst, Wolfe Research LLC*

Q

Yeah. Hey, guys. Can you, guys, hear me okay?

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

A

Yeah.

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

A

Yeah.

Alex Zukin*Analyst, Wolfe Research LLC*

Q

Thanks for taking my question. So, I mean, look, a truly astounding performance in what is a tough macro where you're accelerating growth at scale, more large customers, more expansion on a year-over-year basis from existing customers. I guess, are you seeing something -is there a new dynamic or trend developing?

Obviously, sales cycles are still challenged, particularly in the larger side, but it's unusual, I would say, to see acceleration at this scale. So, is it that you've hired a lot of reps over the course of the last year that are starting to ramp? Is it something in the packaging and pricing that's coming to bear? Is it some new geography that you've opened up? Like what's the story that you feel like is kind of driving this acceleration?

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

A

Hey Alex, it's Dominic. So, I think the real drivers are I would say there are some external factors and that really is – it's just it was a very strong customer demand quarter in Q1, and we've seen that in the most recent quarters as well. And I think going back to my original points, we're selling into a little bit of a different budget here. We're selling into the operations budget for our customers, which tend to be pretty large, less discretionary than maybe some other budget categories. And customers are able to save money and drive really strong and hard ROI, and they're able to pay back their investment very quickly. And so, in a challenging macroeconomic environment, that has continued to play well.

In terms of what drove the performance, I would say it was more tied to strong productivity. We called out it was a really strong, large customer quarter, a record number of \$100,000-plus customer adds at 138. It was a really strong expansion quarter. The new frontiers performed well. And so, I would frame it more as strong productivity than a bunch of additional fully-ramped sales capacity added.

Alex Zukin*Analyst, Wolfe Research LLC*

Q

Perfect. And then, maybe just a follow-up, Sanjit, because we've already gone through the questions and generative AI has not been mentioned. So, in the spirit of keeping that going, I guess, you mentioned how strong of a data asset you're gathering in the platform, one data model. As you look at evolving, particularly with the [ph] war (00:22:17) coming on, as you look at the evolving product packaging and just general go-to market, how important, how realistic is it to assume that there are some incremental monetization opportunities from kind of mobilizing some sort of generative AI functionality inside the product?

Sanjit Biswas

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

A

Sure. So, Alex, AI is something we've been investing in now for several years. I think we really got into it about five years ago as we introduced our safety product, and it really was a breakthrough for us in terms of value for the customer. All of a sudden, they could go from not having to watch hours or hundreds of hours of video footage to being able to surface safety incidents in their inbox and then coach their drivers and reduce their risk. So, that showed us the power of AI. I would say generative is a new tool in the toolbox when it comes to AI, and we're continuing to invest there.

As far as incremental monetization, we first think about how do we create a lot of value for our customers. And we run our customer feedback loop, we try to figure out what's useful to them, and that's where we invest. And then, it comes down to how do we want to price and package it. We don't have any specific announcements to make today, but it is something we're looking at. And Jeff Hausman, who joined us last year as our Chief Product Officer, is very much looking at this to figure out how do we best align with the problems that our customers are trying to solve and then price and package appropriately.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thank you, guys. Congrats and see you next quarter.

Sanjit Biswas

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

A

Thanks, Alex.

Michael Chang

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

A

Thanks, Alex. Our next question comes from Kash Rangan with Goldman Sachs followed by Sterling Auty with MoffettNathanson.

Q

Hey, guys. This is [ph] Jacob (00:23:51) on for Kash. Thanks. Thanks a bunch for taking the question. I want to echo what Alex said around the quarter, really, really, really strong quarter. Good to see. Couple of quick questions. The presentation noted that 83% of the net new ACV was from non-transportation customers. Was this due to more of a focus on those other verticals or is this due to the current weakness that's being seen in the transportation industry as a whole?

Sanjit Biswas

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

A

Yeah. I think this is a trend that we've seen for a while now. I think we've called out in previous investor presentations that if you look at it just on an overall ARR basis, the transportation segment is in the kind of low 20s percent, so this is even lower than that. And I think it just goes to the breadth and the horizontal nature of our platform that this is really a solution set that's addressing many of the physical operations industries, and I think that that's sometimes misunderstood by investors. And so, we just wanted to make sure that we called out that we're really seeing strength across many of these other end markets more so.

Q

Awesome. Okay. Good to hear. And then one more for me is reading through some of the transcripts from like J.B. Hunt and Werner, they both noted that they've had some pretty strong headwinds from insurance claims the last couple quarters. So, has that maybe altered the current selling motion to focus more on the money that can be saved with the Video-Based Safety solutions and the benefits they might get from reduced insurance premiums there? Has there been any updates around that or adjustments to selling motions given that?

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

A

[ph] Jacob (00:25:27), that's been a core part of our value proposition with the Video-Based Safety product for some time is exoneration. Many times our customers get accused of accidents that they did not – they were not involved with, and then just also being able to coach their drivers to reduce risks.

So, that's something that we've been selling into for a couple of years. And I think the examples we mentioned just highlight how valuable it is.

Q

Okay.

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

A

And the [indiscernible] (00:25:48) payments, by the way, can be hundreds of thousands or even millions of dollars. So, it really is a significant source of ROI for our customers.

Q

Okay. Awesome. All right. Thanks for that clarification.

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

A

Our next question comes from Sterling Auty with MoffettNathanson followed by Chris Quintero with Morgan Stanley.

Sterling Auty

Analyst, SVB MoffettNathanson

Q

Yeah. Thanks. Hi, guys. I also want to go back to the idea of AI. And I think you alluded to the possibility of solutions that are more tailored to an industry, so kind of a vertical solution. But what I'm wondering is does that suggest that Samsara will actually start to develop industry-specific specialized solutions built on AI? And if that's the case, what kind of timeline should we think about before seeing something like that in the marketplace?

Sanjit Biswas

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

A

So, Sterling, as Dominic mentioned earlier, we serve a pretty broad set of industries, and we try to find the kind of 80%, 90% commonality. I wouldn't expect us to have verticalized solutions by industry.

In terms of how we're using AI, we are trying to find deeper insights in that data and, again, save our customers time, make it easier to get business value from this data, and incorporate it into a bunch of other systems. So, the way we think about highly specialized vertical software is to partner. We have over 230 partner integrations on our App Marketplace now. Our large customers use more than six of them, and that's a strategy that's worked really well for us. It's very complementary. But our investment in AI is going to be a bit more across the board as opposed to any specific vertical industry.

Sterling Auty

Analyst, SVB MoffettNathanson

Q

That makes sense. And then, Dominic, one for you. You talked about pipeline. Just kind of curious, can you qualitatively just describe to us what's happened to kind of pipeline coverage ratios over the last several quarters as you're kind of managing through these elongated sales cycles?

Dominic Phillips

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

A

Yeah. I think the pipeline coverage has held up relatively well and kind of in line with historical trends. So, we're not again necessarily seeing a big change in the overall pipeline coverage. And, frankly, the conversion of that pipeline, the commentary starting I think back in Q2 of last year was really more tied to the sales cycle length. And I think we've continued to do a very good job of building pipeline and converting that to drive the strong bookings numbers.

Sterling Auty

Analyst, SVB MoffettNathanson

Q

Got it. Thank you.

Michael Chang

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

A

Our next question comes from Chris Quintero with Morgan Stanley followed by Kirk Materne with Evercore.

Christopher Quintero

Analyst, Morgan Stanley

Q

Hey. This is Chris Quintero on for Keith. Congrats on a quarter of strong results here. Following on the theme of asking about AI, I want to ask about your pricing model of charging based on a number of devices versus seats like a lot of software does. So, kind of two-part question. One, what are you seeing in terms of customers wanting

to add more devices? And two, what do you think this means about your opportunity with AI given the kind of Q part of the P x Q equation is not as negatively affected?

Dominic Phillips

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

A

Yeah. I think we're seeing – generally, when customers are expanding a larger portion of the expansion is coming from phased rollouts, so customers that are taking products that they already have and rolling that out to a broader number of assets, and often cases that can be more vehicles.

And so, we're seeing customers continue to grow and to expand. In an environment where there's maybe a shortage of an ability to get certain assets and things like vehicles, being able to use our technology to optimize their utilization or extend the life of some of these assets has really also resonated with customers.

Sanjit Biswas

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

A

And if I can just add a little bit on that. Our customers really do think about their business in terms of their assets. So, it's not so much seats and users. It's the assets. And then, what we're doing is adding value through all the software, through all these data. So, over time, we want to be more valuable to the customer per asset.

Christopher Quintero

Analyst, Morgan Stanley

Q

Excellent. And then, Dominic, last quarter you talked about how Q1 net new ARR should be seasonally weaker than previous years due to more of those kind of enterprise engagements, but actually came in better. So, want to better understand the dynamics there and if that changes your view on seasonality for the rest of the year. Thanks.

Dominic Phillips

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

A

Yeah. Again, it was a strong Q1, I think, again, due to some of those external factors, the strong customer demand, and then we really did have strong internal productivity performance. And so, I think that we feel that the seasonality should probably look like it has in previous years, though I think we recognize that there is a lot of macro uncertainty in front of us. And we did add a lot of hiring in sales capacity in FY 2023. And so, understanding how that sales capacity ramps and how productive it is as it becomes fully ramped I think are things that we're watching out for in the back half of the year. But we're pleased with the Q1 results and the expected linearity for the rest of the year.

Christopher Quintero

Analyst, Morgan Stanley

Q

Got it. Thank you.

Michael Chang

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

A

Our next question comes from Kirk Materne with Evercore followed by Derrick Wood with Cowen.

Kirk Materne

Analyst, Evercore ISI

Q

Hi. Thanks, all, and congrats on a nice quarter. Sanjit, just to start, I was curious if you could just talk about how you think about building out your own sort of application solutions on your data estate as data becomes more essential element of AI. I was just kind of curious if that changes your thinking on what you all might want to do versus handing it over to partners in the App Marketplace. Can you just talk about that a little bit?

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

A

Sure. So, you put your finger on it, which is the data is the most valuable part here. We are collecting an enormous amount of data. We talked about the 6 trillion data points. And it's not just GPS, it's not just video, but it's all kinds of additional kind of business-relevant data for our customers.

The way we think about applications is really through the lens of what drives value for our customers, and that's how we've thought about pricing and packaging. Over time, if there are opportunities, if there are commonalities, in other words, that many of our customers and prospects are asking us for, we would go there, again, kind of applying that 80/20 philosophy. But for now we see a tremendous opportunity with the core apps that we offer today. So, we're going to stay focused, but keep our ears open for additional expansion opportunities.

Kirk Materne*Analyst, Evercore ISI*

Q

That's helpful. And maybe just one for Dominic. Dominic, you talked about expansion on the quarter. Was the expansion mainly just more assets getting covered or was it more products? I assume it's always a mix of both. But did it, I guess, ever flow one way or the other this quarter in a bigger way? The example you gave was obviously you're expanding sort of the asset base that's working with you all. Just curious if the product side of it was strong as well on the [ph] expand (00:32:38) side?

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

A

Yeah, it was. I mean, it is a mix of both rollouts of the product across more assets as well as cross-sells of additional products. That happens every quarter. And the trend in the mix was similar in Q1 as previous quarters. It does skew more towards phased rollouts and in expansion, upsell versus cross-sell, but we did see a healthy mix of both.

Kirk Materne*Analyst, Evercore ISI*

Q

Thank you.

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

A

Our next question comes from Derrick Wood with Cowen followed by Michael Turrin with Wells Fargo.

Derrick Wood*Analyst, TD Cowen*

Q

Great. Thanks. Hopefully, you guys can hear me okay. Just wanted to ask about the hiring of a new head of field operations as you look to scale to the next level. Is there anything you want to highlight in terms of potential go-to market swings that you'd be looking out over the next few quarters?

Dominic Phillips

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

A

I don't think at this point, again, this is just something that we're announcing today. And we've got a machine that's working really, really well. And I think we're really proud of the execution over our first now six quarters as a public company. And so, I wouldn't expect any large and significant changes. We've got a solution that's working really well right now. And Lara will come in and kind of get up to speed and start evaluating and talking to customers. And obviously, we've got Andy on board through the rest of the year to help us with this transition.

Derrick Wood

Analyst, TD Cowen

Q

Great. And given that Europe is such a big part of the TAM out there and you guys had a record percentage of new ACV from non-US customers. It would be great to just hear about investments in Western Europe or even Canada, how they're tracking, what demand is like, and how you're thinking about these international regions helping to contribute to the incremental growth in the medium term?

Dominic Phillips

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

A

Yeah. I would just call it like we are seeing really good success in all of our international markets with Canada, Mexico, and Western Europe, a record 17% of net new ACV coming outside of the US. I think we recognize that these markets are – Western Europe, for example, is a larger market opportunity than the US just in terms of the number of physical operations assets. And so, our core business in the US continues to be the biggest driver of growth and productivity, but we're definitely investing internationally. And you're seeing the higher growth leading to more net new ACV mix coming outside of the US as well.

Derrick Wood

Analyst, TD Cowen

Q

Okay. Congrats on a great quarter.

Michael Chang

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

A

Our next question comes from Michael Turrin with Wells Fargo followed by Jim Fish with Piper Sandler.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Great. Thanks. Good afternoon. Appreciate you taking the question. Just on a similar line from some of the prior questions. Q1 had especially strong to start the year. The customer expansion activity and the mix also stands out. So, just any additional commentary you can add to help us square what drove stronger expansion especially in Q1, if there's anything from a go-to market or product side you put in place, or just any other observations around what's working there and how you might expect that mix between that expansion of trend going forward.

Dominic Phillips

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

A

No. I think that our primary goal is to grow ARR as fast as we can, and we don't necessarily run the business to specifically go after new logos versus expansions. If you recall from Q4, it was a really strong new logo quarter and outpaced expansions, and in this quarter kind of flips back the other way. New logos were still really strong in

terms of the overall number of logos added and the average deal size for new customers, it's just that the expansions were stronger. There was no kind of changes to go-to market or incentives or any of that kind of sales playbook to accomplish that. And we've seen that kind of flip back and forth.

Michael Turrin*Analyst, Wells Fargo Securities LLC*

Q

So, great to have that interplay at your disposal. Just if you can remind us, Dominic, the delta between operating margin and free cash flow margin, if there's a thumbnail on what that's mainly a function of and you have some commentary around how you're expecting that to trend longer term in the [ph] letter (00:36:49). If you can just kind of spell that out for us as well, that's helpful. Thanks.

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

A

Yeah. I mean, I think the biggest driver is obviously the working capital dynamics. I mean, you go back a year ago, I think free cash flow was like 18 percentage points below operating margin, and that was really driven by the challenges in the global supply chain. And now, I think in this quarter we were 8 percentage points better on free cash flow than operating margin. So, it's clearly flipped back the other way. And the biggest driver in the difference is the working capital optimizations and we had a really strong collections quarter, and we continue to see improvements in supply chain and in hardware availability.

I expect these things to move relatively in line with each other. In Q1, we were a little bit better on working capital. But as you're thinking about it going forward, I think within, plus or minus, 5% of each other but kind of moving together is what I would expect.

Michael Turrin*Analyst, Wells Fargo Securities LLC*

Q

Very helpful. Thank you.

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

A

Our next question comes from Jim Fish with Piper Sandler followed by Junaid at Truist.

James E. Fish*Analyst, Piper Sandler & Co.*

Q

Hey, guys, thanks for the question and nice quarter. Really wanted to go about the expansion here going back to the prior couple questions ago. Obviously, you guys have talked about that particularly strong. It kind of implies that NRR possibly uptick here. And I know, Dominic, last quarter we talked about that you expected net retention rates to be a little bit lower than where we were last fiscal year. And I get it's only one quarter, but is this a quarter changing view on that, that we could actually see retention rates finish similar to where we were last year just given the strength in expansion you're seeing right now in your install base?

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

A

Yeah. At the beginning of each year, we're setting out a target for the year in terms of what we expect our net retention rate to be. And in Q1 we were above it in quarters where more net new ACV comes from expansions.

That definitely helps on the net retention side. And, yeah, we were above our target for Q1 and we feel good about being able to stay above that for the rest of the year.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Make sense. And then, on the productivity side again, it sounds like you're extremely happy with where you're at. Are you guys disclosing where overall head count is? I know you don't want to give [ph] quota reps (00:39:21), but where are we at with total head count at this point? And how are you thinking about the hiring environment with the upside you're seeing right now, the pipeline strength kind of balanced against kind of the macro in other spaces at this point that you're not really seeing hit you guys at this point?

Dominic Phillips

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

A

Yeah. I think what we've shared is we grew overall head count approximately 40% last year in FY 2023 and the growth rate will be lower in FY 2024, and we're kind of on track for our targets through Q1. Hiring environment remains good. I think, overall, new hires and our attrition rate, and, frankly, employee sentiment and all of those things are working really well right now, and, frankly, probably as good as we've ever seen. And so, a lot of good hiring momentum right now.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Thank you.

Michael Chang

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

A

Thanks, Jim. Our last question today comes from Junaid with Truist.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thanks for taking my question. This is Junaid Siddiqui from Truist. You've done an excellent job adding large customers to the platform. But as you attract more of these large customers, is there a fear that these elongated sales cycles will become more of a headwind going forward than in the past?

Dominic Phillips

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

A

I don't think so. I think we have a number of large customers where we're able to convert them in months, maybe in a couple of quarters. And we have some large customers where it could be a multiyear sales cycle. And it's been pretty consistent over the last few quarters. We did again see it elevate kind of in the middle of last year. But across the board, across all customer segments, it's been pretty consistent over the last few quarters. And I think we're always going to have some quick converts, and we'll likely always have some elongated sales cycles. But it's something that we're definitely monitoring just given the overall economic volatility.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thank you.

Michael Chang

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

All right. So, this concludes the question-and-answer portion. Thank you, all, for attending our Q1 fiscal year 2024 earnings call.

Before I let you go out, a few short announcements. First, we'll be attending the William Blair Growth Stock Conference in Chicago on June 6 and the Baird Global Consumer, Tech & Services Conference in New York on June 7. So, we hope to see you in person at one of those events.

Second, we're hosting our Investor Day on June 22 in Austin, Texas where we will be providing additional insights on the Samsara trajectory and the overall state of physical operations. Please send an email to ir@samsara.com if you're interested in attending in person. For those that prefer to attend virtually, our Investor Relations website will have a link to a live broadcast.

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

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