31-Aug-2023

Samsara, Inc. (IOT)

Q2 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 Second Quarter Fiscal 2024 Earnings Call. I'm Mike Chang, Samsara's Vice President of Corporate Development and 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 today include forward-looking statements. Actual results may differ materially from those contained in the forward-looking statements and are subject to risks and uncertainties described more fully in our SEC filings. Any forward-looking statements that we make on this call are based on assumptions as of today, August 31, 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 second 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'll 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 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 achieved another strong quarter as we continue to deliver rapid ROI for the world's leading and most complex organizations. We ended Q2 with an ARR of $930 million, growing 40% year-over-year. Q2 is also our first adjusted free cash flow positive quarter and we are proud to have achieved this milestone towards becoming a self-sustaining business. Our vision is to be a multi-decade partner for our customers in driving their digital transformation, and profitability is an important step in that journey.

Our customers represent more than 40% of the global GDP and are the backbone of the global economy. They're leaders in construction, food and beverage, transportation, agriculture and field services. In Q2, we saw continued momentum with large customers. We added a record 140 large customers, bringing us to over 1,500 customers with over $100,000 in ARR, growing 53% year-over-year. This includes New Jersey Transit, National Grid and Boart Longyear, the world's leading provider of drilling services.

Our customer success is central to our company's success, and we are grateful to have earned their partnership and trust. This past June, we had a chance to celebrate our customers by bringing together nearly 1,000 leaders from the largest physical operations organizations in the world at Beyond, our annual customer conference. At the event, we learned more about the challenges they're facing and discussed how Samsara's Connected Operations Cloud is delivering value through digitization. It was a great opportunity to hear our customers' top priorities, which

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is critical as we shape and prioritize our R&D efforts. Throughout our conversations, it was evident that the appetite for digital transformation is robust and growing.

We also held our Connected Operations Awards ceremony, where we celebrated our customers who achieved an outsized impact on our platform. This year, we honored a number of industry leaders, including DHL, our Connected Operations Innovation (sic) [Innovator] winner, and Sobeys, our winner of Most Sustainable Operations.

DHL is one of the largest logistics companies in the world, serving more than 220 countries and delivering 1.7 billion parcels annually. They have complex global operations and a frontline workforce of 600,000 people. Using Samsara for safety and telematics across 20 sites, DHL Express saw 26% reduction in accidents and a 49% reduction in accident-related costs. Equally as impressive, DHL Supply Chain also saw 50% reduction in driver turnover, reaching their lowest driver vacancy ever. Driver turnover is a major cost for our customers, and it's incredible to see the positive impact our products can have by helping companies enhance safety and improve retention.

Let's turn to Sobeys, one of the largest supermarket chains in Canada with more than 200,000 employees across 2,700 locations. They have ambitious sustainability goals with a go green target date of 2035 to substantially lower their emissions. Using Samsara, they saved 46,000 gallons of diesel, leading to a savings of 469 metric tons of carbon emissions in just four months.

We really enjoyed our customer conversations throughout Beyond; and I'm excited to announce that next year, we'll be hosting our conference in Chicago with even more customers, partners and leaders across the world of physical operations.

A key priority for our customers is reshaping the worker experience. While there are millions of employees who work in corporate back office, 70% to 80% of the world's workforce are frontline workers. Saving frontline employees' time with digital workflows and other technologies to modernize their experience, can have an outsized impact for an organization.

A prime example of this is one of the largest air carriers in the world, which is using Samsara to digitize its ground support equipment operations across some of its major US hubs. They're using our telematics and equipment monitoring applications to manage thousands of pieces of equipment, from baggage carts to passenger boarding stairs and more. They've seen impressive results, saving their employees valuable time by helping them locate equipment, often outside in all types of weather conditions in minutes instead of hours.

At one hub alone, they reported saving more than 2,600 hours searching for ground support equipment, and it's already impacting customer experience. They have reduced delays in kickoff flights, the first flights of the day which has a cascading impact on their operational schedule and customer experience. We are proud to help support their frontline teams and drive these results for their business.

Our customers trust us as a strategic partner to make the jobs of their frontline workforce better, safer and more efficient. At Beyond, we announced two new products to further empower their workers: Connected Forms and Mobile Experience Management.

Launching later this year, Connected Forms allows customers to digitize any custom form such as inspections or incident reports, and enables workers to complete them on the go. DeSilva Gates Construction, a leading construction equipment transportation company, used Connected Forms through an early access to streamline

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equipment inspections. They've seen significant value already and reported 90% reduction in administrative time through eliminating the need to process paperwork. You can read more about this exciting use case in our shareholder letter found on our Investor Relations website.

Mobile Experience Management, or MEM, gives operations leaders the ability to easily customize, control and secure devices for remote environments their frontline teams operate in. U.S. Logistics, a final mile company serving the eastern half of the United States, has seen substantial improvements with MEM. Being able to more efficiently assist and train drivers remotely has resulted in a reported 80% reduction in average driver call times. They also reported a 70% reduction in data usage, while eliminating disruption for their drivers supporting their safety on the road.

As we build for the long term, we're investing in technology and talent that will drive value for our customers now and in the future. We listen to our customers through our customer feedback loop and use those insights to deliver purpose-built solutions that address their most pressing needs. In addition to Connected Forms and MEM, this year at Beyond we also announced three innovations to drive operational efficiencies: Virtual Coach, Find My Asset and Data Connectors.

Customer centricity is central to our business. I'm excited to bring an important new voice to the customer to Samsara's Board of Directors with the appointment of Todd Bluedorn. Todd brings nearly 30 years of leadership experience within the industrial sector, including 15 years as Chief Executive Officer and Chairman of Lennox International, a leading global HVAC company, and leadership roles at United Technologies and Texas Instruments. He brings a deep understanding of our customers' needs and has a proven track record of execution and operational rigor, which will only enhance our ability to deliver for our customers. We are thrilled to welcome Todd to the board.

And finally, I wanted to share that we were recently recognized by several organizations as a great place to work. We earned our 2023 Great Place to Work certification. We're named a Best Workplace for Innovators by Fast Company, and we're named a 2023 UK's Best Workplace for Women. We are proud of creating a culture and a company that our employees enjoy working for.

It's been a milestone quarter for us at Samsara. We're operating at scale, have tremendous momentum fueled by customers who find value and ROI in our platform, and have taken an important step towards becoming a self-sustaining business because of our continued focus on durable and efficient growth. I would like to thank all of the Samsarians, customers, partners and investors for joining us on this decades-long journey.

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. Q2 was highlighted by achieving our first quarter of positive adjusted free cash flow. In addition to hitting this milestone in Q2, we expect to remain adjusted free cash flow positive for the full year and going forward. This was also another quarter of high growth at scale. Our year-over-year net new ARR growth accelerated for the second consecutive quarter, resulting in sustained high growth for both total ARR and revenue. In Q2, we added $74 million of net new ARR, a quarterly record, representing 33% year-over-year growth, which was our highest growth over the past six quarters. This also represented 32 percentage points of year-over-year growth acceleration at a larger scale. Q2 ending ARR was $930 million, growing 40% year-over-year, and revenue was $219 million, growing 43% year-over-year, which is the same growth rate as last quarter at a larger scale.

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Several factors drove our strong top line performance. First, we continue to focus on serving large physical operations customers with complex operations that are more likely to utilize our full suite of applications. We now have 1,515 $100,000-plus ARR customers, including a record quarterly increase of 140 or 53% year-over-year growth, which is our third consecutive quarter of maintaining this growth rate at a larger scale.

$100,000-plus ARR customers represent our fastest growing cohort. In Q2, ARR from these customers grew 53% year-over-year, representing the second consecutive quarter of accelerating year-over-year growth. As a result, $100,000-plus ARR customers contributed 50% of total ARR mix, up from 46% one year ago.

Second, this quarter included a balanced mix of landing new customers and expanding existing customer relationships. New customers represented approximately half of net new ACV, and 7 of the top 10 deals were new logos, including 3 that were greater than $1 million, one of which is a leading clean energy provider serving more than 20 million people in the northeastern United States. Using Samsara's EV features and sustainability dashboard, they are realizing hard and fast ROI by reducing the consumption of more than 10 million gallons of fuel per year.

Expansions to existing customers represented the other half of net new ACV, the largest of which was a more than $1 million video-based safety expansion to a critical infrastructure provider. During the pilot phase, the customer realized a 79% reduction in mobile usage events and a 50% reduction in speeding events. In addition to fewer accidents, this customer expects to lower insurance premiums, improve asset utilization and reduce fuel costs all with Samsara.

And third, while our core businesses drove most of our Q2 performance, we also executed well across several new frontiers. For example, state and local governments, municipalities and school districts are becoming increasingly important end markets for Samsara. In Q2, we saw strong public sector momentum, including two of our top five new customers and two of our top five expansion deals. In addition to public sector, we continue to see growing end market diversity. In Q2, 84% of net new ACV came from non-transportation verticals, up from 78% in Q2 last year, with particular strength in energy, utilities, construction and field services.

And lastly, we continue to see strength in non-vehicle applications. We now have three separate products contributing more than $100 million of ARR each and growing more than 30% year-over-year, including equipment monitoring used to locate and manage non-vehicle assets in the field. In Q2, we signed our largest ever equipment monitoring deal, an approximately $1 million expansion to a top 10 customer.

In addition to driving strong top line growth, we continued to deliver operating efficiency improvements across our business as we scale. Q2 gross margin was 75%, a quarterly record and approximately 2 percentage points higher year-over-year, driven largely by optimizing cloud, cellular and customer support costs. Q2 operating margin was negative 3% compared to negative 13% in Q2 FY 2023, and Q2 adjusted free cash flow margin was positive for the first time at 2% or $5 million, compared to negative 25% or negative $38 million in Q2 FY 2023, primarily from improved operating leverage and continued working capital improvements.

Okay. Now, turning to guidance, for Q3 FY 2024, we expect total revenue to be between $223 million and $225 million or between 31% and 33% year-over-year growth. Based on our Q2 results and updated outlook for the remainder of FY 2024, we're raising our full-year revenue guidance to be between $896 million and $900 million or between 37% and 38% year-over-year growth.

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As a reminder, our fiscal year always ends on the Saturday closest to February 1, which means every six years, our fiscal year calendar includes 53 weeks instead of 52 weeks. As such, FY 2024 includes an extra week in Q4, resulting in 14 weeks instead of our typical 13-week quarter. We expect the extra week will add less than 3 percentage points of year-over-year growth in FY 2024, which was already factored into our prior guidance, as well as the current guidance we provided today. Additionally, we don't expect the extra week in FY 2024 will have a material impact on our key profitability metrics because we will incur an additional week of expenses while also recognizing an additional week of revenue.

To wrap up, we are pleased with our performance through the first half of FY 2024 and our improved outlook for the remainder of the year. We are digitizing the world of physical operations and helping our customers become safer, more efficient and more sustainable. With our markets, products and customer focus, we are well-positioned to continue delivering durable and efficient growth.

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 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 Keith Weiss at Morgan Stanley, followed by Michael Turrin at Wells Fargo.

Christopher Quintero
Analyst, Morgan Stanley

Q

Hey, guys. This is Chris Quintero on for Keith Weiss. Thanks for taking the questions. Sanjit, really great to see that largest ever equipment monitoring deal. So, congrats on that. What are some of the learnings that you have from selling telematics video safety into fleets that you can bring as you make more of a push on the equipment monitoring side into industries like construction and public sector, where maybe Samsara doesn't have that initial name recognition like it does within the fleet side of things?

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

A

So Chris, we're really excited to see that $1 million-plus expansion with equipment monitoring. It is interesting to think about what lessons can we bring over. One of the most fascinating things is a lot of these customers with huge numbers of assets in the field didn't know that they could track all of that equipment. And so, it sounds kind of simplistic but they thought GPS tracking was really limited to their over-the-road vehicles, and that's often where we start. So that expansion that we're talking about, in many cases, will start with telematics. The lessons that we're able to bring over are really around ROI, what are you doing in terms of understanding your asset utilization, should you be remarketing some of your assets or utilizing them differently. And to mention construction, it's a newer industry vertical for us, but I'm proud to say we now serve 6 of the top 10 largest construction companies in the US. So, we do have that foothold or traction. But for many of them, it's an education journey that they can track more than just their vehicles.

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Christopher Quintero
Analyst, Morgan Stanley

Q

Got it. Very helpful. And then, Dominic, revenue guidance for Q3 implies lower than normal kind of seasonal growth, more of a backend-loaded Q4 implied seasonal growth rate. Is there anything to call out there from a seasonality perspective?

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

A

Well, I think similar to the guidance philosophy that we've used throughout the year, I would frame our revenue guidance as de-risked. There's still macro uncertainty in front of us and we feel highly confident that this is a number that we're going to be able to hit. I'd also just again reiterate that the implied Q4 guidance includes this extra week in Q4, a 14-week quarter instead of 13-week. And so, that also will have an impact on the revenue growth in that quarter, and therefore, in Q3.

Christopher Quintero
Analyst, Morgan Stanley

Q

Excellent. Thank you.

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

A

Our next question comes from Michael Turrin at Wells Fargo, followed by Matt Pfau at William Blair.

Michael Turrin
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks so much. Appreciate you taking the question. Second straight quarter we're seeing these outsized results on net new ARR. At the midpoint of the year, I'm just wondering if there's anything you'd look back on as a key point of focus you had starting the year that's maybe helping drive some of the first half outperformance we're seeing? And any surrounding commentary coming out of the Beyond event that we were at a few months back, to just help support the continued momentum there?

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

A

Hey, Michael, it's Dominic. I think that the investments we've made over the last couple of years have really helped us get off to a really strong start in the first half of the year. And I think it's just the broader customer demand, the fact that we're able to provide hard and fast ROI, our customers' operations budgets are generally increasing. I call that two of three leaders are increasing their operation technology budget.

But we've made a lot of investments in areas like large customers and back-to-back quarters of record ads and we're seeing good balance between new logos and expansions. And then, some of our newer frontiers, public sector, when we called up the equipment monitoring. So, those are investments that we've been making for a couple of years and I think we're just seeing the continued momentum in those businesses over the first half of the year.

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

A

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And if I can just add a couple of themes we heard at Beyond. Dominic just mentioned large customer momentum. We saw that really come through at Beyond. And many of these large customers have complex physical operations. And they're using this data that's now in our platform, the system of record for their physical operations to connect into other systems. So, that's another big tailwind we have is this appetite for data and interest in getting more visibility. And just to put a number on, they're connecting us into more than six systems on average. And so, that's a really unique position that we have that I think is functioning as a tailwind for us in the market.

Michael Turrin
Analyst, Wells Fargo Securities LLC
Q

That's great. And maybe just one on free cash flow, you just had a big milestone there. Some of the supporting commentary suggest guiding for breakeven effectively for the back half of the year. We don't have much of a seasonal history to look back on. And I know there are a lot of focus efforts put in the back half of last year to help get to the level that you're currently operating at. So just anything you can comment on, Dominic, on the seasonal profile we should expect from free cash flow going forward and how you think about the pace of trajectory there, now that you've reached that important milestone. Thank you.

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

Yeah. Obviously with free cash flow, there's stuff that happens at the end of quarters and the beginning of quarters. It's less seasonal or predictable as like ratable revenue recognition. And so, we – strong free cash flow in the quarter. And I think for the back half of the year, we're seeing breakeven in the last few quarters and we'll kind of see what we can do. But our goal is really to focus on the full year and we feel confident that we're going to be free cash flow positive, not only as we did in Q2, but for the full year as well.

Michael Turrin
Analyst, Wells Fargo Securities LLC
Q

Congrats on the strong first half.

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

Thanks.

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

So our next question comes from Matt Pfau at William Blair, followed by Sterling Auty at MoffettNathanson.

Matthew Pfau
Analyst, William Blair & Co. LLC
Q

Yeah. Hey. Thanks for taking my question. I wanted to ask first on the 7 of the top 10 deals that were from new customers. I think that's up very significantly from the first quarter. But if you were to look back historically, how does that mix compare? And if it's up, what factors are driving that? I mean, I'm sure it's some combination of signing larger customers as well as customers making a bigger commitment upfront. But anything you would point to?

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

A

Yeah. I mean I think if you go back to Q4, it was like more new logos than it was expansions; and then in Q1, it flipped, and 60% of our net new ACV came from expansions. And now, we're kind of at parity, so kind of 51% expansions, 49% new logos. And again, the way that we compensate our sales force, we just care about getting as much ARR as we possibly can and they're compensated to drive overall net new ACV. And whether that comes from a new logo or an expansion to an existing customer, it's the same commission rate.

And so, these things can be a little bit lumpy and which of those two are driving more of the net new ACV, but it's been pretty balanced over the last few quarters, and again, you're right, a very strong new logo quarter for us.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Great. And I just wanted to follow-up on the gross margin in the quarter. Good to see that up. I think the guidance implies that that would decline a bit in the back half of the year. Any reason why you would expect that to decline in the back half?

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

A

Again, there's timing implications of gross margins quarter-to-quarter. I think we would just focus investors on the full-year results. We're steadily making progress and more and more leverage out of gross margins and getting some optimizations around cloud and cellular and customer support. But the kind of the timing of when those expenses land within a year can fluctuate. And again, I would focus investors, most of the leverage in this business going forward will come from operating expenses below the gross margin line.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Great. Appreciate it. Thank you.

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

A

Thanks.

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

A

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

Sterling Auty
Analyst, MoffettNathanson LLC

Q

Great. Thanks, guys. Can you comment to what you saw in terms of pipeline – sales pipeline development through the quarter? And how does the kind of strength and maturity and health of that pipeline look coming here into the third quarter versus what you saw coming into the last couple of quarters?

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

A

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I would say it was pretty consistent. Obviously, Q2 was a step up from a really strong Q1 and conversion rates and pipeline generation and going all the way to things like free trials and the conversion of that into bookings was fairly stable and consistent. And as we look in the back half of the year, especially coming off of our Beyond customer conference, we continue to see good pipeline and good customer demand.

Sterling Auty Q
Analyst, MoffettNathanson LLC

And then, just one question on the tech stack, you talk about the integration on the operations side with six additional systems. At this point, what is the next kind of key milestone that we should be looking at from the outside in terms of additional either integrations or tech partnerships that you need to kind of drive the next level of adoption for the operations cloud outside the vehicle?

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

I would say, first of all, we have over 240 technology partners on our app marketplace. So, these are integrations that essentially work out of the box for our customers. There are always more that our customers ask us for as we continue to penetrate new vertical industries. Dominic mentioned public sector as an area that we've been investing, and it's going well. As I meet with customers, I always hear about a new piece of software they'd like us to connect with. So, I think we're still in that early phase of getting connected and getting this data to flow across systems.

As far as unlocks, I think a lot of it comes down to helping our customers realize even more ROI from this data. For many of them, this is the first big data initiative they've had. They've been in business for decades, or in some cases, 50 or 100 years, but they're not as familiar with using modern technologies, using devices out in the field and getting reporting in the back office and changing their operations that way. So I think that's the unlock, is showing them how to get even more value from this data.

Sterling Auty Q
Analyst, MoffettNathanson LLC

Understood. Thank you.

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

Our next question comes from Kash Rangan at Goldman Sachs, followed by Jim Fisher, Piper Sandler.

Jacob Staffel Q
Analyst, Goldman Sachs & Co. LLC

Hey, guys. This is Jacob on for Kash. Thanks so much for taking the question. Really, really good quarter. Just a couple from me. One, the large customer momentum – large customer count saw a very pronounced momentum this quarter with another record quarter of adds. Is there anything to call out around that number? And then, can you touch on how many of those large customers were existing versus new customer adds?

And then, another question around the sales force. I believe in the second half of last year, it was mentioned that you start to bring on some additional sales capacity. So those should be ramped by now, I believe. So, maybe touch on how those new ramped reps are faring relative to expectations and anything to call out around that would be great.

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

Sure. So hey, it's Dominic. So of the 140 new $100,000-plus customers, I think roughly 60% or just under 60% were existing customers and a little bit more than 40% were new logos. In Q1, I think it was more like 70% were existing logos and about 30% new. So a little bit more new logo drivers of that $100,000-plus additions, which is in line with the 7 of the top 10 deals being new logos, and obviously, a lot of those being – all of those being over $100,000. So, still pretty balanced but a little bit stronger in terms of new logos this quarter.

In terms of the sales capacity, we definitely have been adding more and more sales capacity and really started that process in the middle of last year. It takes roughly four or so quarters to ramp – for our sales rep to become fully ramped. And so, we should have more kind of fully ramped capacity as we go into the back half of the year. We definitely saw some benefit from adding extra capacity, even though it wasn't fully ramped in the quarter, to go along with improved productivity again in the second quarter.

As we look into the back half of the year, I think we're really excited about the extra fully ramped capacity. I think the question for us is just what does that do to overall productivity, as you bring more and more people on your generally splitting accounts and cutting territories. And so, really making sure that we're tracking the overall productivity will be important to help us determine how to pace out hiring from here. But we're looking forward to that in the back half.

Jacob Staffel
Analyst, Goldman Sachs & Co. LLC
Q

Awesome. Thank you so much.

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

So our next question comes from Jim Fish at Piper Sandler, followed by Alex Zukin at Wolfe.

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

Hey, guys, Jim Fish. Nice quarter here. Appreciate the details on the new versus existing base. When you look at your installed base here of roughly about 20,000 core customers, where do you guys think your wallet share is today or what's kind of left to kind of penetrate overall? And Dom, for you, how should we be thinking about expansion rates in the back half of the year and how they looked actually in fiscal Q2 here versus last quarter?

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

Yeah. So, I would say saturation is still relatively low. When I look at the two largest expansions in the quarter, both of those were existing customers and they were licensing brand new products that they hadn't used before and they were $1 million-plus expansions. And so, I think generally, the – most of our expansions comes from customers rolling out more licenses across a broader set of assets, whether that's new subsidiaries or new geographies. And so, to see them also come back and add additional products was great to see. And so, I – and there's obviously a lot of opportunity for us to continue to grow within our existing customers.

On the retention rates, again, it's been fairly stable. As we called out in the shareholder letter for Q2, we were ahead of our targets of 115% for core customers and 120% for large customers paying more than $100,000. And so, again, almost 50/50 on expansions and new logos, and that continues to be a big part of our business.

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James E. Fish
Analyst, Piper Sandler & Co.

Q

Makes sense. And just to follow-up on the public sector announcements here. Understanding it was more on the state side. I mean, you guys have talked about this public sector opportunity for a little while. Obviously, with this upcoming quarter being the kind of federal budget flush, I guess what are you seeing in terms of interest level from the federal side of government at this point? Anything to add there? Thanks, guys.

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

A

So Jim, this is Sanjit. When you look at the physical operations' addressable market for government, it's actually more centered in state and local because that's where a lot of these municipalities are kind of maintaining the roads and they're running the waste management services and so on.

So, that's our primary focus, is working with state and local agencies. And you've seen that we announced the State of Tennessee earlier. We just talked about New Jersey Transit. So, that continues to be our focus. At some point, we will continue to grow into fed, but the primary focus for us is [indiscernible] (32:06) state and local, as well as education, which includes K-12.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Great color. Great quarter, guys. Thanks.

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

A

Our next question comes from Alex Zukin at Wolfe, followed by Junaid at Truist.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Hey, guys. Can you hear me okay?

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

A

Yes.

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

A

Yeah.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Perfect. Hey. First of all, again, congrats on another great quarter as well as the materials presentation of the deck and the letter. Really insightful and helpful. I guess, maybe just the first one. I want to ask Jim – Jim asked a really great question. I want to ask it on a different – slightly different cohort of customers, which, Sanjit, is your largest customers. I think one of the things that comes out is the level of strategic value that you're adding for kind of, I think what some investors would consider non-traditional customers for you, guys, the airline that you called out as an example.

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Like how big can your biggest customers get to and what evidence in those like 1 million-plus customers? If you look at – obviously, your net retention is higher in your larger customers today. But as you look at that wallet share potential and you think about how strategic you could ultimately become with the new offerings that you're launching, how should we think about that? And then, I've got a quick follow-up for Dom.

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

So Alex, we're excited to be working with these large customers. As we called out, we now have over 60 customers that are over $1 million in ARR. I think it's early in terms of penetration. The use case that we highlighted earlier in the call with the airline and the equipment, that's just one piece of their operations, and it's really very early in terms of their overall deployment footprint. So, I think there's a lot of room to run and a lot of upside, and we are just beginning to explore all the different possibilities to generate ROI for them.

Alex Zukin
Analyst, Wolfe Research LLC
Q

Perfect. And then, Dom, it's rare to see the combination of net new ARR acceleration whilst – like sales and marketing expense growth decelerates. So, maybe was there anything special, unique, one time in nature or are we now at that point where, from an incremental margin perspective, like do you feel like at some level you're going to start a new hiring cycle to take advantage of all the opportunities you're seeing in the market or just making sure we're kind of not missing anything there?

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

No, you're not. You're not missing in anything. It's just we're hitting on kind of both sides of this. We have been investing in more sales capacity and we're getting – and that sales capacity is ramping and we're getting more productive. We're becoming more and more strategic for our customers. We're moving even more upmarket and grabbing more of that wallet share.

And that's allowed us to accelerate net new ARR growth for the last two quarters. At the same time, we're operating with a lot more efficiency, and we've rapidly been able to get to free cash flow breakeven and positive now well ahead of expectations. And nothing one time to call out, but that is our focus going forward, is sustaining high levels of growth and doing it as efficiently as possible.

Alex Zukin
Analyst, Wolfe Research LLC
Q

Well, good. Keeping on. So thank you, guys.

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

Thank you.

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

Thanks, Alex.

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

Our next question comes from Junaid at Truist, followed by Derrick Wood at Cowen.

Junaid Siddiqui
Analyst, Truist Securities, Inc.
Q

Great. Thanks for taking my question. Just last week, you had the Teamster (sic) [Teamsters] Union ratify a new five-year contract with UPS, which included some provisions that would stop the installation of driver-facing cameras, as there were increasing concerns about surveillance from workers.

I was just curious, your thought process and if that causes any concern from your perspective, as other companies might potentially stop installing safety devices. And how do you address these privacy concerns with respect to your business, especially in geographies like Europe, which probably are a little bit more sensitive to these privacy issues?

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

Junaid, this is Sanjit. I think that's an important topic to highlight. First of all, we talked about large customer momentum a little bit earlier. Almost all of our large customers have some sort of relationship with labor unions, whether it's Teamsters or others. And so, we're very familiar with working with the unions themselves, as well as alongside the employer, to make sure that, again, the focus is on the safety aspects of things. I think everyone wants workplace safety to be enhanced and moving in the right direction while preserving and maintaining privacy. So, we're very transparent around what the devices do, what the data is, how it's preserved, and who has access and visibility to it, and we really try to have a joint and cooperative process. So, we're – again kind of to recap, we're familiar with the concerns of the unions and we tend to work hand in hand with them. And we've seen it through in many deployments now of scale where we get a significant buy-in because they are interested in improving the safety out in the field for their workers. And that same sort of motion and theme carries over to Europe. Again, every market is a little bit different, but we see a lot of those same themes carrying out.

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

I think just even to echo on the – in the prepared remarks, another example like – as Sanjit mentioned, DHL Supply Chain saw a 50% reduction in driver turnover. And so, once these customers get the technology installed and they realize ROI in a very quick period of time, we can have a lot of success with this technology.

Junaid Siddiqui
Analyst, Truist Securities, Inc.
Q

Great. Thank you. Just one follow-up, Dom, maybe for you, on contract duration. Just wanted to see how that's trended. And are customers opting for maybe shorter contracts or has held pretty stable over the last couple quarters?

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

Yeah, it's been very stable. We signed three to five-year subscriptions with our customers, and we haven't seen any change in that.

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Junaid Siddiqui
Analyst, Truist Securities, Inc.

Q

Great. Thank you.

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

A

Our last question today comes from Derrick Wood at Cowen.

Derrick Wood
Analyst, TD Cowen

Q

Great. Thanks. I wanted to touch on the momentum building in state and local and just trying to – would like get a little bit more color on what's driving this inflection. And I'm curious, is it more dedicated resources that you've kind of put in market, is it a bit more kind of network effect than market recognition starting to take hold, or are there some dynamics in those end markets that are driving more priority for digital transformation? Just was looking to get a little more color behind the drivers here.

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

A

Yeah. Derrick, it's Dominic. I think you touched on two of the investments we made. One is around the go-to-market motion. We – our sales reps are horizontal across all industries, except for public sector. We have a dedicated team, sales team that is very focused on just the public sector customers. And that is an investment we started a couple of years ago and has really started to ramp up and is driving more of the productivity that we're seeing, including in Q2.

And the second one is the network effect that these customers tend to talk to each other. And so, when we can land and have success and then we're able to reference those customers with other new prospects, that can drive a lot of success momentum and we're seeing both of those.

Derrick Wood
Analyst, TD Cowen

Q

Great. And maybe I'll ask on Connected Forms. I guess, it's expected to be [indiscernible] (39:31) sometime this year. I saw in the shareholder letter some kind of beta users and some kind of ROI stats behind that. Just curious, any more color on when it comes out, what you think could happen in terms of initial interest and whether it could be more of a needle mover for you in terms of revenue next year or maybe something that takes longer to take hold?

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

A

So Derrick, this is Sanjit. This is kind of aligned with how we operate, which is spending time with our customers, running that customer feedback. We've been really understanding their operations to find other ways to help out. Connected forms is something that we're seeing be very closely aligned with our core business. These same customers that are managing their fleets and thinking about safety are also thinking about other forms of workplace safety, for example, being able to do OSHA safety checklists as they do forklift safety and that kind of thing. So, that's going to be one area that we focus on.

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I will say, though, it's very early where this is going to be a GA product at – towards the end of the year, and then it takes some time for us to build it up. So, we're excited about it but I don't think it's going to be a huge revenue line in the coming year, but we are optimistic about it over the long term because there's so much pen and paper process out there in the world of physical operations and so many of these use cases, I think there's going to be compelling ROI for our customers.

Derrick Wood
Analyst, TD Cowen

Q

Got it. All right. Congrats on another great quarter. Thanks.

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

So, this concludes the question-and-answer portion. Thank you all for attending our Q2 Fiscal Year 2024 Earnings Call. Before I let you go, I have a few short announcements. We'll be attending the Goldman Sachs Communacopia Conference in San Francisco on September 5, the Wolfe Technology Conference in San Francisco on September 6, and the Piper Sandler Growth Frontiers Conference in Nashville on September 12. We hope to see you in person at one of these events.

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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