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Samsara, Inc. (IOT)

Q3 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 Third 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, November 30th, 2023, and we undertake no obligation to update these statements as a result of new information or future events unless required by law.

During today's call, some of our discussions will include our third 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 will discuss today are non-GAAP except for revenue and revenue growth. Reconciliations of GAAP to non-GAAP financial measures are provided with the press release and investor presentation. We'll make opening remarks, dive into highlights for the quarter and then open the call up for Q&A.

With that, I 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 had another milestone quarter. We surpassed \$1 billion in ARR, growing 39% year-over-year. We are a strategic partner for the world's leading and most complex physical operations organizations. Large customer momentum continues to fuel our growth and we added a record, quarterly – a quarterly record of 148 customers with more than \$100,000 in ARR. This represents our fastest-growing customer cohort, growing 49% year-over-year. We also added a quarterly record of nine customers with more than \$1 million in ARR and seven Fortune 1000 customers.

Our customers partner with us because we drive impact for them. As part of our ongoing customer feedback loop, we meet with the frontline and back office workers to understand where they're getting the most value. Here's what they say sets us apart. First, our single platform for all of their operational systems. Second, our simple, intuitive and easy-to-use technology that just works out of the box. And third, our strategic customer partnership. All of this together is what powers our customers outcomes and helps deliver clear and fast ROI for their organizations.

I'd like to share two examples of this. Earlier this year, we announced a partnership with one of the largest air carriers in the world to digitize its ground equipment across major US hubs. This quarter, we partnered with another major airline, the world's largest low-cost carrier to help them – their teams use equipment more efficiently and avoid unnecessary spending. We gave them visibility in their fleet utilization and helped their

employees locate critical equipment in real-time. This decreased both maintenance times and costs and help to ensure planes were serviced. Based on results from initial pilot, we estimate the airline can save more than \$15 million annually from improvements in utilization, fuel efficiency and operations.

Another example is one of the largest specialty contracting companies in the US focused on construction services, maintenance, replacement, fabrication and engineering services. They are top 10 customer and have had 19 expansions with us since 2018.

This quarter, they expanded with us again with an over \$1 million video-based safety deal. Safety is one of their core values. The well-being of their employees, clients and subcontracting partners is fundamental to their success. During the initial pilot, the company averaged a 50% reduction in safety events when events were coached. We are proud to drive these meaningful results in ROI and improve the safety, efficiency and sustainability of our customers' operations.

In just eight years of selling, we are operating at a rare combination of scale, growth and profitability. Of all the US-listed software companies, only seven, including Samsara, are at or above \$1 billion in ARR growing faster than 30% and free cash flow positive. This demonstrates our commitment to execution and our strength in the market. Looking forward, we believe we have the foundation to continue delivering durable growth and operating efficiency improvements.

First, we are addressing a large market that is still in the early innings of digitizing. Physical operations represents more than 40% of global GDP. They're the mission critical infrastructure that keeps the world running. Our customers are the world's leaders in construction, food and beverage, transportation and warehousing, public sector, agriculture and more.

Second, we're building the only system of record for physical operations to address this market. We pioneered the Connected Operations Cloud to connect – collect IoT data from a broad and diverse group of vehicles, equipment, sites, workers, and a growing ecosystem of connected assets and third-party systems.

Third, we aggregate all of this data into one common cloud. Our multi-application platform continuously delivers applications to solve our customers' most challenging problems. This unlocks an opportunity for us to continue selling and expanding with our customers. Last, our increasing scale and strong unit economics drive operational efficiency. Q3 is the 14th consecutive quarter where we've improved operating margins and dollars year-over-year. While we are proud to have reached the \$1 billion ARR milestone, we know that this is just a small step in our journey to transform the world of physical operations.

In front of us, we have a large and rapidly digitizing market. We are scaling our multiproduct platform to address the needs to the world's most complex physical operations organizations. And we have a strong foundation to build on with more than 19,000 core customers, more than 260 partners and thousands of Samsarians working in harmony. The flywheel that is powering our business is accelerating as we convert our leading operations dataset into AI-powered insights that amplify customer impact.

The first part of the flywheel is investing back in our platform, which has more than 6 trillion data points and 55 billion API calls over the last year. We're focused on increasing the operational dataset in our cloud. There are many drivers that will continue to bring more data in, including expansions to more asset types, international growth and more ecosystem partnerships.

Second, as we increase our unique dataset, we expect to deliver even more insights and solutions for our customers. We've pioneered a platform that is purpose-built to capture and curate data, adopt new models through our robust machine learning infrastructure, and operate in our cloud and at the edge with IoT devices. All of this allows us to accelerate and expand AI-powered insights for our customers.

Third, more insights will drive more impact. We have been delivering clear and fast ROI by partnering closely with our customers to understand their key operational pain points. This also helps us understand how AI-powered insights can make the jobs of their workers better and safer and how their operations can become more efficient and sustainable. As we look to the future, our customer feedback loop will continue to unlock more applications such as co-pilots, risk centers and workflows to drive even more customer impact.

We're excited about the future and I'd like to say thank you to all the customers, Samsarians, partners and investors for supporting us on our journey to \$1 billion in ARR. We're now operating at a rare combination of scale, growth and profitability, and we're just getting started. As we scale towards our next \$1 billion and beyond, we can look forward to the continued partnership with our customers on their digitization journeys. I can't wait to see the impact we'll make on their communities as we improve the safety, efficiency and sustainability of their operations.

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. Q3 was highlighted by several new records for important operating metrics and surpassing notable milestones. First, we surpassed \$1 billion of ARR in just our eighth year of selling to customers. Second, this was our third consecutive quarter of accelerating year-over-year net new ARR growth at a larger scale. Third, we achieved a quarterly record number of large customer additions with both \$100,000-plus and \$1 million plus ARR customers. Fourth, our Video-Based Safety and Vehicle Telematics products each surpassed \$400 million of ARR while still growing more than 30% year-over-year.

And lastly, we achieved our first quarter of positive non-GAAP operating profit, led by a quarterly record non-GAAP gross margin. Q3 was another quarter of sustained high growth at scale. Our ending ARR was \$1.003 billion, growing 39% year-over-year and Q3 revenue was \$238 million, growing 40% year-over-year.

Several factors drove our strong top line performance in Q3. First, we continue to focus on serving large enterprise customers to drive durable and efficient growth at scale. We now have 1,663, \$100,000-plus ARR customers, a quarterly record increase of 148, representing 49% year-over-year growth. We also saw particular strength within our largest customers. We now have 71, \$1 million-plus ARR customers, a quarterly record increase of nine, representing 54% year-over-year growth, accelerating from 51% year-over-year growth last quarter at a larger scale. \$100,000-plus ARR customers also represent our fastest growing cohort and make up 51% of our total ARR, up from 47% one-year ago.

And our land-and-expand strategy for large customers continues to pay off. In Q3, four of our five largest net new ACV transactions were new logos, including three new \$1 million-plus ARR customers that each landed with our three largest products, Video-Based Safety, Vehicle Telematics and Equipment Monitoring. Additionally, almost 60% of the \$100,000-plus ARR customer additions in Q3 were expansions to existing customers allowing us to achieve our target dollar-based net retention rate of 115% and 120% for core and large customers respectively.

Second, our customers increasingly utilize Samsara as a system of record for physical operations by subscribing to multiple applications, all on one unified platform. More than 90% of our large customers and 75% of our core customers subscribe to multiple application licenses. As a result, our two vehicle-based applications, Video-Based Safety and Vehicle Telematics, each represent more than \$400 million of ARR and our largest non-vehicle based application, Equipment Monitoring, which is used to locate and manage field assets, is more than \$100 million of ARR.

In addition to large scale, each of these product categories is growing more than 30% year-over-year. Additionally, our largest transactions increasingly include multiple products. In Q3, 9 of our top 10 net new ACV deals included two or more applications. Our largest new logo in Q3, a leading US aggregates company with over 1,000 on and off-road vehicles and over 6,000 field assets across more than 500 locations landed with Video-Based Safety, Vehicle Telematics and Equipment Monitoring.

Partnering with Samsara, the customer is eliminating more than 50,000 hours of manual reporting and data input work, gaining insight into equipment utilization, providing safety coaching and saving millions of dollars on annual fuel spend.

Third, we continued to demonstrate strong execution in several frontier markets. Most notably, 17% of net new ACV came from international geographies, tied for our strongest quarter ever, driven by strength in Mexico and Europe. Additionally, our construction and public sector verticals each contributed their highest net new ACV mix over the last three years, led by new customers such as the City of New Orleans, serving nearly 400,000 residents and millions of visitors annually. This large municipality landed with Video-Based Safety, Vehicle Telematics and Equipment Monitoring across 41 city departments, including police, fire, public works, code enforcement, parks and parkways, sanitation and more to proactively manage maintenance, improve operational efficiency and safety and increase asset utilization.

And lastly, we saw strength in emerging products that provide additional expansion opportunities within our existing customer base. Mobile Experience Management or MEM, is a new software only product that allows customers to manage mobile devices in the field through features such as end-to-end visibility, remote access and display customization. Q3 was our first full quarter selling MEM and we've already crossed \$1 million of ARR.

In addition to driving strong topline growth, we continued to deliver operating efficiency improvements across our business as we scale. Non-GAAP gross margin was 75% in Q3, a quarterly record and approximately 2 percentage points higher year-over-year, driven largely by optimizing cloud, cellular and support costs.

Non-GAAP operating margin was positive for the first time at 5% compared to negative 10% in Q3 last year, an improvement of approximately 15 percentage points year-over-year. An adjusted free cash flow margin was 4% or \$9 million in Q3, compared to negative 9% or negative \$15 million in Q3 last year, an improvement of 12 percentage points or \$23 million year-over-year, primarily from improved operating leverage and continued working capital improvements.

Okay. Now turning to guidance. Based on our Q3 results and increased forecast visibility for the last quarter of the fiscal year, we're raising our revenue and profitability guidance both in dollars and margin. For FY 2024, we're raising our revenue guidance to between \$918 million and \$920 million or 41% year-over-year growth. 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. As such, our FY 2024 includes an extra week in Q4, resulting in 14 weeks instead of our typical 13-week quarter.

We expect the additional week will add approximately 3 percentage points of year over year growth in FY 2024, which was factored into our prior guidance as well as the updated guidance provided today. Additionally, we don't expect this will have a material impact on our FY 2024 ARR because sales quotas are consistently set regardless of the number of days or weeks in a fiscal quarter or year. Similarly, we don't expect a material impact on our key profitability metrics because additional expenses will be required to support the additional revenue.

In addition to increasing our top-line guidance, we're also improving our FY 2024 non-GAAP operating margin guidance to approximately negative 1% or an implied operating income improvement of [ph] \$18 million (00:15:31) at the midpoint of guidance. And we are raising our FY 2024 non-GAAP EPS guidance to between \$0.05 and \$0.06. And finally, we included a few additional modeling notes in our Shareholder Letter.

So to wrap up, we are pleased with our performance in Q3 and our 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 believe we are well positioned to continue delivering durable and efficient growth.

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

Thanks, Dominic. We'll 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 Michael Turrin at Wells Fargo, followed by Matt Hedberg at RBC.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Great. Appreciate you taking the question and again, just congrats on the clean results. In terms of the international opportunity, I want to spend a minute there, there was commentary on the net new ACV there coming in stronger than historical. Where are you – can you just help level set where you are in terms of scaling some of those efforts? How we should think about the investments required to enter into new territories? And how you think about the potential mix there overseas over time?

Dominic Phillips

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

A

Yeah. So look, we're very focused in North America, US, Canada, Mexico and then in some core markets within Western Europe. We view this as a really important frontier for our future growth and so we're investing accordingly. These are really large markets and there are a lot of similar dynamics as what we see in the US in terms of physical operations, customers with not a lot of visibility into their operations. And so, again, we're very focused on these markets over the long run. And we're going to continue to invest and monitor results and productivity and efficiency and that will really gauge how we invest going forward.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Okay. And just on the quarterly record, in terms of large customer activity, is there any commonality or anything you can point to in terms of product? There's some good commentary on the diversification towards non-vehicle and smart equipment at over \$100 million. But just wondering if there's anything you'd call out in terms of the large deal momentum? Thanks.

Dominic Phillips

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

Yeah. It's Dominic again. Look, I just think it's really just consistent execution. We've really been investing in the enterprise segment for many years now, and we're just – we're seeing really good consistent execution. I call out – I mentioned in the prepared remarks that about 60% of those 100,000-plus additions were expansions to existing customers. So within that large enterprises, we're seeing more expansion net new ACV, but also when I look at the large deals in the quarter, there were a lot of new logos landing over \$1 million as well. So really just a good balanced new customer and expansion mix.

Michael Chang

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

All right. Our next question comes from Matt Hedberg at RBC, followed by Keith Weiss at Morgan Stanley.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Hey, guys. Can you hear me?

Dominic Phillips

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

Yeah, [ph] we got (00:18:45) you.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Great. Congrats from me as well. The \$1 billion threshold and the profitability are super exciting milestones. I guess following-up on the large deal success, it's great to hear the Equipment Monitoring is also over a \$100 million [ph] now too (00:19:00) and growing rapidly.

I'm curious, on some of the [ph] newer lands, are you seeing high – fairly high attach (00:19:06) for monitoring on sort of net new. I imagine, as part of a lot of [ph] upsells (00:19:09), but are you starting to see even more sort of new customers come in and add Equipment Monitoring right out of the gate?

Dominic Phillips

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

Maybe I'll start and then, Sanjit, if you have some color. So there were several large deals in the quarter, we called out specifically there were three new logos, over \$1 million each. All three of those included Equipment Monitoring. So, I mean, that's great to see. Historically, it really did come into play more as an expansion, but in some of these larger customer transactions where they're really looking to Samsara as a system of record across their operations, they're really examples of taking a lot of the platform upfront.

Sanjit Biswas

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

Yeah. Matt, if I could just add one or two things. We mentioned some airline customers. For them, it's primarily an Equipment Monitoring use case where they have specialized pieces of equipment out on the airfield under the wing and they're trying to improve utilization and understand where that equipment is. So that's a great example of what an Equipment Monitoring lands, can look like and we do see that quite often.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

That's fantastic. Thank you for that. And then, Dom, one for you. Obviously, a good quarter, you raised guidance for the year. You didn't comment on fiscal 2025, and I'm curious as we sort of start to think about sharpening our pencils for next year on modeling assumptions, are there any details that you can share on maybe just guideposts for how we should think about fiscal 2025 initially?

Dominic Phillips

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

Sure. Yeah. So I look – and we need to get through Q4 obviously before we finalize our plan for FY 2025. But I'd say that based on our current outlook, I think the initial FY 2025 revenue dollar range that we provide will be higher than the current consensus number, given that we just beat Q3 and we raised Q4. And I would also frame that as de-risked.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Thanks a lot, guys.

Dominic Phillips

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

Thanks.

Michael Chang

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

Our next question comes from Keith Weiss at Morgan Stanley, followed by Kash Rangan at Goldman Sachs.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Hey, guys. This is Chris Quintero on for Keith. Thanks for taking our questions and I'll add my congrats to you on the quarter. Really exciting to see Mobile Experience Management already cross \$1 million ARR given it's new product. So what do you think that says about your ability to launch and scale new products? And does this change how you view the opportunity with new products like Connected Forms on a go-forward basis?

Sanjit Biswas

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

Yeah. I'll take that one. We were very pleased to see MEM start up line so quickly. I think we have a large base to work with and that's where we get a lot of our ideas and our product feedback from. We're excited to be launching more products into our markets over time. But this was the strategy was to build out a platform, build deep customer relationships and then continue to scale with multiple products over time.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's very helpful. And then, Dominic, revenue growth of 40% was really strong, but I think net new ARR growth of 20% year-over-year and down sequentially is a bit lower than the historical seasonality that you've seen in Q3. So just curious if there's anything to call out there?

Dominic Phillips

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

A

Yeah. I mean, I would just – I'd say it's important to remember that net new ARR is seasonal. So I would probably look at year-over-year comparison is probably more indicative of the performance in the quarter than quarter-over-quarter. But maybe just even as a reminder on the seasonality, normally Q1 is generally our seasonally weakest quarter and then Q2 generally steps up from Q1 because we've got a bunch of sales reps that are on semi-annual quotas, so we see a bump up from Q1.

Q3 tends to be flat – flattish to Q2. And actually if you look back three of the last four non-COVID years, Q3 net new ARR has been within \$1 million of Q2. And then Q4 tends to step up and be our seasonally strongest quarter because all of our sales reps have a quota period that ends in Q4. So I would just point back to Q3 net new ARR flattish to Q2. It also accelerated for the third consecutive quarter and Q4 is off to a good start.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you.

Michael Chang

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

A

Our next question comes from Kash at Goldman Sachs, followed by Derrick Wood at TD Cowen.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. That's an unbelievable benchmark you've reached. Very few companies have been able to grow at that pace and hit \$1 billion in revenue and keep the momentum growing. My question for you, maybe it's more appropriate for Sanjit. The non-transportation mix of net new ARR is very high. Clearly, the end markets are diversifying and opening up in ways that at least I have not thought about. What does that tell you about the TAM for the company? Because it's no longer just a fleet management, telematics type opportunity, something much bigger than that. Can you tell us how you think about the product strategy, go-to-market strategy as the TAM really becomes something different and bigger than what at least I thought it was, which was going to be more telematics and vehicle-related? But seems like your process workflow automation for many kinds of business processes that are outside of the core domain? Thank you so much.

Sanjit Biswas

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

A

Sure. So, Kash, I think you're making a really important point, which is we are selling to the broader world of physical operations. They happen to have many fleet vehicles and so it's been our kind of entry point or foothold. But we now work across companies in the world of construction, energy, utilities, as I mentioned, some local governments. So it's way beyond kind of the typical or the fleet market that people tend to imagine. So that's been part of the strategy from the beginning, which is to build out this broad platform.

We do see an opportunity to continue expanding with lines like connected equipment, which is now over \$100 million in annual recurring revenue. As you said, non-fleet products are now over 17% of our mix, so we would expect to see continued strength and growth there. But we are thinking much more broadly. We're thinking about workflows, we're thinking about Mobile Experience Management and we're kind of trying to find new ways to really connect our customers' operations across more than just their fleet vehicles.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Fantastic. Congratulations. Thank you so much.

Michael Chang

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

Our next question comes from Derrick Wood at TD Cowen, followed by Alex Zukin at Wolfe.

Derrick Wood

Analyst, TD Cowen

[ph] I'm sorry, I was on mute (00:25:28). Thanks and congrats on another great quarter. Sanjit, you guys have 6 trillion data points running through your platform, I think I saw. Anything to update on what kinds of potential there is to train large language models with this data, create new kinds of generative AI applications? And how should we be thinking about the potential value for co-pilots?

Sanjit Biswas

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

So it's an area we're investing in. As you mentioned, 6 trillion data points on the video side. We also see 44 billion minutes of video footage recorded by these dash cameras and then we have now third-party ecosystem integrations as well. So there's frankly a lot of data to train on. We've seen great results training on some of that video footage for our AI-based safety. And now we're taking in that kind of broader, more holistic set of data to train generative AI models.

The way we think about it is, again, through the lens of the customer, what's going to be practically useful for them out in the field, can we speed up some of their workflows? Can we help them with things like dispatch and their customer activities? So we're going to be continuing to train models the way we have for the last several years with this increasing data asset that we're building. But we're going to be looking at it through a customer lens to say, what else can we do for them and not just the technology lens of generative AI.

Derrick Wood

Analyst, TD Cowen

Okay. Great. And, Dom, so I mean, you guys have made just one of the highest growth rates in all of software, really impressive. And I think of kind of the algorithm underneath this is kind of a P times Q model, sales capacity and sales productivity. You had a lot of sales hiring last year and those new reps ramped quite a bit through this year. You've moderated your growth this year and that would insinuate that maybe you've got some slower growth in productive sales capacity next year. I guess, how do you think about this growth algorithm for next year? And now that you're generating cash and continue to see such good demand, are you thinking about kind of pressing the gas a little bit more on hiring going into next year?

Dominic Phillips

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

Yeah. So I think that our – we've done a lot of hiring across the company over the last one to two years. And we've done a good job of ramping that capacity and making them productive. And a lot of – three consecutive quarters now of accelerating net new ARR growth year-over-year as a result of adding additional capacity that has driven some of that. I think going forward, we see a really large opportunity.

We're operating in a big TAM, physical operations, again is 40% of global GDP and we think we're just getting started. So I do expect us to continue to make investments next year at a consistent pace. And our goal is to operate within the guardrails of being free cash flow positive, we think about things like Rule of 40 in terms of balance. But beyond that, we want to drive high levels of growth for as long as we can and we think we're set up well to do that.

Derrick Wood

Analyst, TD Cowen

Great. Congrats. Thanks.

Dominic Phillips

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

Thank you.

Michael Chang

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

Our next question comes from Alex Zukin at Wolfe, followed by Matt Pfau at William Blair.

Alex Zukin

Analyst, Wolfe Research LLC

Hey, guys. Thanks for taking the question. And again, just sounds like truly marvelous quarter. I guess, one thing that stood out to me was that four out of the five largest customers in the quarter were kind of net new logos and lands. And I guess, is there anything that you're seeing, you've been operating at a pretty high rate of execution through what would – some would describe as a pretty challenging macro backdrop. So anything you sensed or saw in the quarter that kind of was changing that maybe led to some incremental momentum that you're starting to see and pick-up on in the marketplace? Is it pure execution? Anything there kind of from a macro perspective that you'd comment on with respect to the business?

Sanjit Biswas

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

Hey, Alex, it's Sanjit. We spent a lot of time out in the field talking to customers, understanding their business. I think there's a broader trend towards digitization that's occurring in physical operations. These are folks with lots of assets, lots of labor, they're trying to find ways to be safer, more efficient, more sustainable, so they're now looking at tools like us. And I think word is getting out that this is a product that delivers very clear and fast ROI.

As far as what they're seeing in their businesses, many of them have strong books of business where they're booked out a couple of years in advance. And so as we focus these large, complex physical operations customers, I think there's more stability there than you might expect, maybe if you were to look at the other end of the market with SMBs or something like that.

Alex Zukin

Analyst, Wolfe Research LLC

Q

That's super helpful. And then as we think about next year – for either you, Sanjit or Dominic, as you think about stack ranking, the growth drivers, can you maybe talk about just, where does pricing packaging, where does more verticalized products, maybe gen AI SKUs, like what's the right way partner influence, selling, like any of those kind of stack rank, some of those more exciting opportunities that's going to drive the net new ARR next year?

Dominic Phillips

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

A

Yeah. Maybe I can start. I think for us it's just going to be continued execution and I think we need to continue to roll out more and more products. We have a track record now with three products over \$100 million of ARR all still growing really quickly. And on top of that, we're rolling out additional products that we think that we can sell into our existing installed base. So continue product innovation will be key and then the other key driver for us is continuing to add sales capacity at a consistent rate, making sure that we're ramping that capacity and that they're staying as productive as they were before. And we think that we can continue to drive a lot of growth.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thank you, guys. Congrats.

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 Matt Pfau at William Blair, followed by Daniel Jester at BMO.

Matthew Pfau

Analyst, William Blair & Co. LLC

Q

Hey, guys. Thanks for taking my questions and I'll echo my congrats on the quarter. Wanted to ask and apologize for the multi-part question, but about the win with the low cost carrier. So first, was the win with the previous airline a factor in driving this win? And then the prior airline, I believe, was just in a couple airports, is that the case with the low-cost carrier? And the previous airline win, have you seen an expansion beyond the initial deployment within a few airports? Thanks.

Sanjit Biswas

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

A

Sure, Matt. I'll take that. This is an interesting story. We held our customer conference, Samsara Beyond last June. And one of the airlines was on stage with us and a few of the other airlines were in the audience. And so, I do think that folks are learning from each other, they're seeing what others are doing in their industry. And this idea of increasing asset utilization is really fundamental in physical operations.

These are companies that have hundreds of millions, sometimes billions of dollars of assets and they're trying to figure out how to get the most bang for their buck. So I think that's something where once you have a case study, it kind of sets the pattern and others kind of run with that same idea. As far as the deployments, I don't know off

the top of my head. I do know that one of the airlines has expanded with us recently. I can't remember exactly, which one.

Matthew Pfau

Analyst, William Blair & Co. LLC

Great. And then just a quick question for Dom, on the gross margins, I think you've been sort of guiding us to expect that to be down and it keeps going up. How should we think about that going forward? Thanks.

Dominic Phillips

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

Yeah. Look, I think there's some timing puts and takes within any given quarter with – throughout our P&L and so I would just continue to focus investors on the kind of the full-year color that we provided in the modeling notes. We're really happy again, quarterly record getting to 75%. But most of the leverage, I think in the model going forward in the out years will really come from below the gross margin line, sales and marketing, G&A and maybe a little bit more out of R&D.

Matthew Pfau

Analyst, William Blair & Co. LLC

Perfect. Thank you.

Dominic Phillips

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

Thanks.

Michael Chang

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

Our next question comes from Dan at BMO, followed by Junaid at Truist.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Great. Thanks for taking my question. Actually, can we just follow-up on that last one about sales and marketing, expense and R&D? It's been really impressive that you've been able to keep those expenses kind of flat to down sequentially for the last couple of quarters and still sort of drive really strong strength on the top-line? So maybe just – can you expand about sort of the ability to drive leverage on those expense items?

Dominic Phillips

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

Yeah. Look, I think there's always some timing stuff at play within quarters. I do expect that our overall OpEx, which decreased in Q3 will be higher in Q4 and you can see that in the – we just did 5% operating margins in Q3, I'm guiding to 2% for Q4. So I do think there's a little bit of timing at play. But I just want to be clear, I think we're definitely investing and trying to sustain high levels of growth. And so you may see some timing in the quarter-to-quarter.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Got you. Thank you. And then as you continue to kind of expand products kind of beyond the fleet, any update on how you're thinking about pricing models for those new products, any evolution and kind of customer conversations or how you're thinking about going to market with price? Thank you.

Sanjit Biswas

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

A

So we've talked a little bit about Connected Forms and Mobile Experience Management as some new products that we're experimenting with. There, I think the pricing model is going to be very similar to what we have where it's a per asset per year or per user per year model. We're going to look at different ways to package it just to make it easy for customers to adopt and consume the technology. But for us, it's really let's keep it simple and let's focus on the customer experience.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Q

Great. Thank you very much.

Michael Chang

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

A

Our next question comes from Junaid at Truist followed by Kirk Materne at Evercore.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thanks for taking my question. Sanjit, I was just curious to get your thoughts on the SEC reporting requirements around emissions and whether you think that could serve as a potential catalyst for your business going forward similar to the ELD mandate some years ago?

Sanjit Biswas

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

A

Sure. So many of our large customers use our – the Connected Operations data we provide in their ESG reports and they do that today. And it makes their lives a lot easier because they can understand exactly how much fuel did they consume and where were they operating and so on. I think as those reporting requirements become a little more mature, we'll certainly integrate that into the product. And I think it's going to be helpful for our larger public companies. But I don't know that it's an ELD tailwind that would be a much kind of broader effect.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thank you. And just on the go-to-market front, any update that you could provide us with now that Lara has been aboard for a couple of quarters as CRO? Any change in strategy with respect to partners or any changes to your go-to-market organization?

Sanjit Biswas

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

A

No. I'll say, Lara has been doing a great job just getting up to speed. She's been out on the road with me a ton and customers have really enjoyed getting to meet her.

No big changes to announce, I think, continued focus on execution as Dominic highlighted earlier, is kind of what we're focused on as a team and there's just a lot to do right now.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Great. Thank you very much.

Michael Chang

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

Our last question today comes from Kirk Materne at Evercore.

Kirk Materne

Analyst, Evercore ISI

Yeah. Thanks very much. Dom, I was wondering, obviously, you guys are now signing up a lot of customers with multiple products at the outset, which is great. Are those customers coming in and is that just still a subset of their equipment sort of inventory? Or are they now coming in when they have multiple products as they're [ph] using your system of (00:37:25) record and starting at a larger size and scale? Just kind of curious about that dynamic. Obviously, it's very positive to kind of get the platform deal upfront. Just kind of curious if the expand from there is similar to if they just decide to take on telematics to start?

Dominic Phillips

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

I think we're getting into some bigger lands up upfront. But I don't think that, that customers are landing wall-to-wall. Still the majority of the large customers will land with a subset of their assets, their vehicles, their field assets and then they'll expand over time, that continues to be the primary way that we see customers growing with us. A lot of these customers have different operating segments and different decision makers and they grow through M&A. And so, there's a steady stream of expansions coming on as well. And I think that's indicative of just if you look at the net new ACV mix in the quarter, 51% came from new customers, 49% came from expansions to existing customers. So we tend to experience really good balance across both of those.

Kirk Materne

Analyst, Evercore ISI

Great. And then, Sanjit, really quickly, could you just talk about the momentum in the marketplace? Just kind of curious what you're seeing, obviously, as your customer base gets bigger, the opportunity for your partners in the marketplace gets bigger. Just anything that stands out to you in that dynamic.

Sanjit Biswas

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

Sure. Kirk, I think you're referring to our app marketplace?

Kirk Materne

Analyst, Evercore ISI

Yes, I'm.

Sanjit Biswas

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

Yeah. So we have now over 260 partner integrations and it's really across a very wide range of partnerships. So great momentum there. Customers are very much adopting integrations, turning them on. If you look at our larger customers, the ones who are over \$500,000 in ACV, they typically have six or more integrations that are active. So I think that's an area of continued pull and really differentiation we're the largest platform for them in terms of these integrations. So it's really about delivering more value for our customers and the partners love it because we make it easy.

Kirk Materne

Analyst, Evercore ISI

Super. Thank you all.

Michael Chang

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

Thanks, Kirk. This concludes the question answer portion. Thank you all for attending our Q3 fiscal year 2024 earnings call. Before I let you go, I have a few short announcements. We'll be participating in the Piper Sandler Bus Tour in San Francisco on December 4, the FBN Virtual Bus Tour on December 12, the William Blair Bus Tour in San Francisco on December 12, the Goldman Sachs Bus Tour in San Francisco on January 3, and the Evercore Virtual Bus Tour on January 8. We hope to see you at one of these events.

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

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