

07-Mar-2022

Samsara, Inc. (IOT)

Morgan Stanley Technology, Media and Telecom Conference

CORPORATE PARTICIPANTS

Dominic Phillips

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

OTHER PARTICIPANTS

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

All right. Let's – we're going to get kick off early because we've a lot of talk about. Okay. My name is Keith Weiss. I run the US software equity research effort here at Morgan Stanley. And very pleased to have you with us from Samsara, CFO, Dominic Phillips. Thank you for joining us.

Before we get started, a brief research disclosure. For important disclosures, please see the Morgan Stanley website at www.researchdisclosures or www.morganstanley/researchdisclosures. All right.

With that out of the way, so again, thank you for joining us at the TMT conference. This is the first time you're attending as Samsara's CFO.

Dominic Phillips

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

That's right.

QUESTION AND ANSWER SECTION

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

So maybe to start out with, it is a recent IPO. I think you're still getting on a lot of investor's radar screens, and I think some investors have too narrow of a view of kind of what Samsara is all about and what you guys are trying to achieve. So could you talk to us about the broad mission of Samsara? What it needs to sort of really go out there and tackle the operational economy out there, all the physical assets that aren't really part of our day-to-day perspective?

Dominic Phillips

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

A

Sure. Yeah. So Samsara is a seven-year-old company and we are connecting the world of physical operations to the cloud, and so we are addressing industries that represent more than 40% of global GDP. These are things like transportation, logistics, construction, field services. These are industry – industries that have been typically very underserved by technology. And for these customers, we are collecting and organizing a broad set of data, and we're pulling data off of a number of different types of operations assets. So things like commercial vehicles, field equipment, heavy equipment, physical sites like factories and warehouses, we're bringing all of this data into the cloud on one unified platform. And then our customers are using that data to run their businesses more safely, more efficiently, and more sustainably.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

(

Got it. So it's really about the – like the bigger world of physical operations. Samsara got its start with fleet management, right, with a telematics offering, and then going to the video safety offering. Could you talk to us about why are – why were those good places to start? And maybe kind of walk us through how the product portfolio has evolved from there?

Dominic Phillips

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

A

It's interesting. The background of Samsara is the two founders cofounded a company previously called Meraki that they ultimately sold to Cisco for about \$1 billion back in 2012. And then they left Cisco after a couple of years, and they started Samsara, and they really reverse-engineered this opportunity, and they said, how can we combine this hardware, software, cloud-based solution and go attack a new market. And they ultimately decided to go after this world of physical operations because it's very, very underserved by technology.

And one of the core tenets of the company is the customer feedback loop. And so the original product was actually a temperature sensor, and they went out and they tried to sell that. And customers said, really, we could use – where we could use you is in this kind of telematics space. It's a space that's been around for decades.

And so the first product was telematics, and it's GPS, and it's pulling engine and diagnostic data from a vehicle, and it's managing it as a cloud-based service and just doing it better than the vendors did previously, and then going back to the same customers and saying, how else can we help you. And the customer said, we have a – we spend a lot of money on things like insurance premiums and on an accident cost, and safety is becoming a bigger

corporate priority. And so the second product was the AI-enabled dash cam, and that is now the leading product. Both safety and telematics are each more than \$200 million of ARR, but the second product, the safety product, is now our largest.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Got it. Got it. In terms of the competitive landscape, you mentioned going into telematics industry that has a remarkably large number of vendors in there. And it is not a new area, it's not necessarily an underserved area. Where does Samsara drive its competitive advantage? Like you guys have grown to be a leading vendor in a remarkably short period of time. What's the wedge that you found that enables you to kind of get in there and displace incumbents, displace guys who have been at this for 10, 15, 20 years?

Dominic Phillips

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

A

Sure. I think one of the remarkable aspects of this market is that it is so fragmented. There're hundreds of vendors and they're all focused on different customer segments or different products or different geographies. And we've come in and we've approached this from a more holistic point of view. And so I think some of the key reasons why we're winning, the first is that we are the IoT data leader. And so we collected almost 5 trillion IoT data points last year, up more than 2x. We collected more than 85 billion video minutes, that's up more than 2x. And maybe most importantly, we grabbed 2.5 billion AI-detected events. And so a big AI play here as well and that's up more than 12x year-over-year. So a tremendous amount of IoT data that has a compounding effect. It's a big data moat and then we can drive more value and more context for our customers with that data is the first reason.

The second is that this is a holistic platform that is capturing data across many different types of assets. So whereas previous vendors may only focus on things like a vehicle or a piece of equipment or a physical site, we are bringing in data across many different types of assets on one platform, which really up-levels the conversation to the head of operations.

And then the third is it's just really easy to get up and running really short time to value. And so, we don't have a large professional services organization. We ship out devices. Customers are able to deploy them on their own, get up and running within minutes, and start to collect data and get real ROI in a very short period of time. It's a very complex set of operations with hardware, software managed in a cloud service. But we make it very simple and easy for customers to use.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. I want to dig into a couple of those points. But before we go there, one of the things that we heard from customers that they were very impressed with Samsara. And I think you mentioned this in terms of the feedback loop. It was just the point of when we asked Samsara for features or functionality, they actually deliver them, right. And I think that's just something about the competitive environment, there was a lot of equipment vendors and device vendors that had 18-, 24-month time horizons. But it also says a lot about Samsara as a software company operating, but also somebody who's trying to foster that kind of feedback loop. Could you talk us about sort of the operationalization of that, like, how do you create a product development strategy around we listen to our customers and deliver what they want?

Dominic Phillips

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

A

It's always been a core tenet of the company. And this is a technology company at its heart. The two co-founders are PhDs from MIT. I mean, they're technologists. And again, this is the second time that they've done this. And there's a lot of pride and value in being able to create really complex technology solution. But it's very simple for customers to use and they ultimately get a lot of value. And so, a lot of investment in R&D. And last year alone, we produced more than 200 software feature releases for customers that they just automatically get as a part of the subscription. And so that that's ultimately a big part of it.

Customer success is another large investment that we make. And so making sure that customers are getting onboarded and ramped up and have the kind of training and enabler, and if you can imagine the type of customers that we're selling to, the world of physical operations, they just – they need solutions that work. Again, they've been very underserved by technology. They don't have very large IT departments. They don't have a large army of developers. They just need solutions that work. And so we collect feedback from them and then they help us drive our kind of near-, medium-term roadmap.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Going back to sort of the three points that you brought up. Your point number three was easy to get up and running. And I'm covering your software company but one of the things that we heard from customers who were doing the due diligence and I got to be honest, I love this IPO because it's like exposure into a whole world that I had no idea about at all when it comes to logistics and transportation and all this. But one of the fascinating points is guys really like your hardware too. And it was about being easier to install and easier to maintain and it was basically like, it takes us 15 minutes to install Samsara, it took 45 minutes for the other guys. 30 minutes doesn't sound like a lot until you times it by 10,000 trucks and then it's a real savings.

So you guys have been able to hit it on the hardware side of the equation but that's not the business model. Can you talk to us about sort of how you price, where does the hardware component come into it and how should software investors think about sort of what's the drag of hardware, if you will, on the overall equation?

Dominic Phillips

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

A

Sure. So this is a – an enterprise subscription SaaS model. 98% of our revenue is recurring subscription SaaS revenue. And we have a number of different products and we license those products on a three- to five-year basis and we price on a per asset per month basis. So very similar to seat-based licensing except instead of the number of people, it's tied to the number of assets. But otherwise, it looks and feels and operates much like just a traditional enterprise SaaS business model. Supporting that service are a number of different COGS, cost components, and so one of them is the way that we collect the data. And usually that is through an IoT device that we provide, whether that's a gateway or a camera. And that has been roughly 10% of our revenue. So our gross margins are 74% in Q4, about 10% of revenue is tied to this – the amortization of the hardware device. We provide cellular data, so we basically have a giant family plan of data and we use that data to send the data from the physical asset to the cloud.

And the third kind of primary component of it is our public cloud costs, we're hosted as an AWS service. We also provide things like customer [indiscernible] (00:10:45). But all of those costs are used to support the service and we recognize the entire subscription license ratably over the life of the contract because customers are getting value from each of those components. We don't sell them individually.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. So there's no separate hardware component within the revenues. And if we think about it from a cost of goods sold, there's 10 percentage points of that cost of goods sold that comes from the – through hardware component.

Dominic Phillips

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

A

That's correct.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. You mentioned the – being an IoT data leader and it's something that it sparks a lot of interest in investors. We're looking for interesting, unique data sets that people can leverage more fully across additional solutions. Could you talk to us a little bit more about how leverageable that data is? Like, is there examples or whatnot you could give us in terms of where having that big data set, having that more comprehensive view has enabled you guys to come up with feature functionalities or even new solutions that stemmed from having that type of visibility?

Dominic Phillips

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

A

Yeah. I'll start very broad. I think one example is, again, we collected almost 5 trillion data points last year, which allows us to provide some really interesting benchmark data, and so we can anonymize customer data and provide them some benchmarks, fleet-based benchmarks, so things like maintenance for accident rates or fuel usage. And then customers can compare their operations to other similar companies in terms of size or industry to get a sense of are they operating efficiently or not?

I think even more so on an individual basis, the breadth of the data that we're collecting can provide more context to customers that allows them to ultimately save more money. So, for example, if a customer has our telematics solution, they – we're collecting GPS data, so we know where the vehicle is and we're collecting the GPS data in real-time, so it looks and feels like a consumer application like Uber, where you're seeing the vehicle move along the road. We understand if there's a harsh braking event, so that comes from telematics, but then when we layer in the video data as well, we can construct a more complete view of what actually happened. Was the harsh braking event due to an accident? Was it due to the driver actually missing a car that pulled off the road and ultimately was not a bad driving incident, but was a safe driving incident and potentially where the driver should be rewarded for those efforts? And so being able to bring in a broader set of data allows us to provide more context to customers that they can use to ultimately operate more efficiently and safely.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Right. And it seems to me that the structure of how you put together that solution also sort of naturally extended into other solutions like your Sites solution, right. Instead of video safety looking at the road and trying to identify a stop sign, Sites is looking at the warehouse floor and trying to identify a puddle of stuff that shouldn't be on the floor and looking at people that might potentially slip on that puddle. So it seems like that same underlying technology platform is leverageable into other solutions as well.

Dominic Phillips

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

A

That's right. So, about 10% of our ARR comes from revenue outside of the vehicle. So we've talked a lot about telematics. We've talked about safety. These are two of our leading products, but we also are selling applications outside of the vehicle. So connected equipment, so field equipment tracking and utilization and location. And then, as Keith mentioned, connected sites, which is basically taking our vehicle video-based solution and bringing it into a factory. And so, I like to use this analogy, like, I don't know if you have like a ring doorbell or like a nest doorbell, but basically taking in video-based data and then layering on AI on top of that, so that operators can understand what's going on or being notified what's going on within their factory.

So, if there's a collision or an incident, you can quickly search the data. You can understand time of day and potentially if maybe someone was wearing an orange shirt when the accident happened, you can rapidly go and search the video data very quickly. You can ring-fence off certain components of these physical sites and be alerted if someone enters them at a given time. And ultimately, similar to a vehicle, you're trying to operate more safely. Similar within a physical site, you're trying to lower accidents, reduce insurance premiums, avoid incidents.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's a good segue. So we've talked about the breadth of the solution portfolio. You've gone from telematics to video safety to asset tracking and you have sites. Could you talk about the value proposition that customers are seeing on the other side? When we think about telematics and video safety, what are the core kind of value propositions you guys are trying to bring there? Can you talk a little bit about the applications you've built on top of those products and how are customers thinking about it from like an ROI perspective?

Dominic Phillips

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

A

Yeah. So this is primarily cost efficiencies. So if you think about the world of physical operations and these customers that we're selling to and what their cost stack is, we're trying to reduce those costs. So driver wages, insurance premiums, accident cost, fuel usage, maintenance. Our technology ultimately allows customers to use data to lower those costs. And then that applies into connected equipment and connected sites, trying to understand utilization and optimize the way that equipment is being used, as well as reducing accidents and operating more safely within sites.

There is a leg of this also which is more revenue driving or customer success focused where if you can provide better ETAs, if you can help your end customers understand when a service technician is going to arrive or when a package is going to arrive, that ultimately improves customer sentiment for our customers and can also help them improve revenue, which is another aspect of the solution we provide.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Could you talk a little bit about TAM? When you think about what solutions that you guys have in place today, how do you size the available market? And how much of that's realizable today? How much is it going to necessitate incremental investment either we need to go internationally to get this or we need new solutions to go out and get it?

Dominic Phillips

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

A

Yeah. So as I mentioned, we are – the world of physical operations is 40% of global GDP and we've talked about some of the industries that we address these industries, again, very underserved by technology. But the products that we're selling today address a market that's more than \$50 billion and is expected to grow to close to \$100 billion over the next few years. Of the \$50 billion, \$33 billion of it is tied to the vehicle. The other component is tied to equipment and sites. But all of these markets growing at a more than 20% CAGR over the next few years.

What's interesting is that 90% of our business today is in the United States, about 10% internationally and that includes Canada, Mexico, Western Europe. But the customers and the problems that we're solving for in the United States exist in these other markets as well, and those markets are as big, if not bigger than the United States. And so, as I said, we're seven years old. We've been selling for six years and we've had a lot of success in the US, but we will continue to invest into these international opportunities and we think those are longer-term drivers of durable growth as well.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Just to dig in on that a little bit, so \$33 billion of the market opportunity is related to vehicles, and the pricing is basically unit per truck, right. And this is a separate price point for video safety and...

Dominic Phillips

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

A

Sure.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

(

...a separate price range for vehicle telematics. How much of that market opportunity is in the US versus international, if you're going to just kind of roughly cut it up?

Dominic Phillips

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

A

I think a fair – we just feel like a third, a third, a third. And maybe it's a little bit more in Europe and maybe a little bit more kind of in APJ, but roughly kind of a third across the board.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And where do you think we are in terms of penetration rates across those business?

Dominic Phillips

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

A

We're in the really early innings. I said we're kind of going through this digital transformation in the world of physical operations. We've seen it in consumer. We've seen it happen in enterprise over the last decade, and now we're kind of in the early innings of physical operations. And so, even just within the United States, if you were going to say, I'm sorry you do this, but like as I'm driving, I'm looking around at commercial vehicles to kind of see what they've got going on and 40% to 50% of commercial vehicles in the United States are using a telematics

solution today. So that's a market, again, that's been around for decades, and we're often replacing an incumbent. But when you move into video-based safety, which is, again, our leading product at this point, less than 5% of vehicles have that solution today. And so we're really in the early innings of video-based safety in vehicles.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. And then if we dig into the competitive landscape a little bit, the way kind of we see it, there's – the majority of vendors in this space today are other third-party vendors like yourself, and typically they've come either from a telematics perspective or a video safety perspective. There's very few vendors that do both well or have an integrated solution to do both well. Any vendors in particular that we should sort of have on our radar screen that you guys see as the more viable competitors or...

Dominic Phillips

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

A

It's very fragmented. And again, I think that a number of vendors that have been around this space for decades have just approached it in a very different way. I think there's also an interesting analogy. It's almost like starting a company before public cloud was available and you did it kind of on-prem to kind of re-architect yourself to be viable in public cloud would be a severe undertaking. You saw a lot of companies that just couldn't make that transition.

There're a lot of technology trends that have just enabled us to be in the position that we are today that simply didn't exist 10 years ago. 4G was a massive accelerant for video-based data, and the data that we can collect and how we can process it and the AI that we can layer on top of it just didn't exist five years ago. And so we've approached it from a technology-first perspective, and again breadth in terms of product and the assets that we're collecting data from, breadth from geographies, and then breadth from customer segments. We haven't really talked about this, but about half of our business, 45% of our ARR comes from customers that pay us more than \$100,000, 55% of our business is customers between \$5,000 and \$100,000, so a really nice mix across products, geographies and customer segments.

Keith Weiss

*Analyst, Morgan Stanley &
Co. LLC*

(

Got it. The other competitive dynamic is the equipment manufacturers themselves. The guys who are building the trucks, more and more are putting these types of sensors into their trucks. Is this a big risk for Samsara that, hey, listen, the equipment vendors themselves are just going to build this right in?

Dominic Phillips

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

A

Yeah. So we view them as – frankly as great partners. So there're hundreds of sensors that are prebuilt on vehicles. And historically, this sensor data has just been trapped on the vehicle. And so we provide an IoT device, so it's basically a gateway. It just – it takes the trapped sensor data and sends it to the cloud. Increasingly, vehicles are being prebuilt with Internet connectivity and a number of these OEMs have their own cloud where they're collecting the same data. And in these cases, we've built a dozen or so OEM integrations where we can just pull the data directly from a third-party cloud in the same way that we would if we were to have the customer install a gateway.

The reality is that our customers are operating a mixed fleet of vehicles. They've got some of vendor A, B, C and they want – regardless of the type of vehicle they have or the type of asset they have, frankly, they want to just see all of that data in one unified platform and manage it from one platform. And an OEM may be able to provide that for their specific vehicles, but that is not something that is ultimately going to meet the customer's needs.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Got it. So, it's similar to like what we see in the IT world, like, any – like Cisco, if – like, if they're going to provide network monitoring solutions for their switches, but if you have a broader variety of vendors in that, you're going to want something that's works with them.

Dominic Phillips

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

Yeah. I think public cloud is a great example. Like, AWS, Azure, Google Cloud provide a ton of different features and functionality, monitoring, data warehousing center. They all have this, but they're really providing it for their specific cloud-based workloads. You've seen a number of these software vendors stand up where they take a holistic approach. Regardless of where your IT workload is, they can provide you value across all of their public cloud providers, as well as private cloud on-prem. They make it simple and easy for customers to see it as a single pane of glass. It's very similar.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

And when you sign these OEM relationships with the truck manufacturer to get access to their data, are you paying enough for that data? And how does that compare with sort of the cost of the hardware itself?

Dominic Phillips

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

There is a commercial arrangement where we're able to get access to the data. And it's pretty comparable today and kind of TBD where that ultimately heads over time.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Got it.

Dominic Phillips

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

It's a very – I just – to make it clear, it's a very, very, very small portion of the licenses that we have today are being pulled from a third-party cloud. The overwhelming majority of the data that we're collecting is coming from a Samsara gateway, Samsara camera.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Got it. Got it. I want to switch gears a little bit to the financials, spent the first 25 minutes with the CFO not talking about financials. So you talked about the split within your customer base, 45% from the over \$100,000 ARR

cohort. Is there a – like, how should we think about the focus of Samsara on a go-forward basis? Should we expect that 45% to grow faster than the rest? Or is it pretty even focused amongst the various customer types?

Dominic Phillips

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

A

Yeah. So similar to the way that we started in telematics and then expanded into safety and equipment and sites outside of the vehicle, we started as a business that sold primarily into the midmarket. And over the last few years, we've really been investing in our field sales team and more upmarket. And increasingly, each quarter we see a larger mix of our ARR coming from the customers that pay us more than \$100,000. We're now at 45%. And it's increased about 1 percentage point per quarter.

And I would expected that to continue, which is exciting because the larger customers – this is a solution that is built for complex – broad, complex types of operations, and the larger customers tend to be aligned with that. But I think it's also telling that, while we're investing and seeing more success out of that market, it's only moving up by kind of 1 percentage point a quarter, which implies that our midmarket business is also growing very, very quickly and is a big driver of our of our growth as well.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Now, if we think about that in the frame of reference of your net retention rate, you talked about it companywide net retention rate of over 115%. For this over \$100,000 customers, it's 125%-plus. So if mix shift is heading towards those \$100,000 customers, that should be a positive pressure on overall NRR, right.

Dominic Phillips

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

A

We are seeing NRR trends improving. I think we'll probably start disclosing this or give an update on an annual basis, but we're still kind of over 115%, over 125%. But what we have seen positive trends.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And what's driving that 125% in those large enterprise customers? Is it like expansion across their company's fleets? Is it more solution?

Dominic Phillips

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

A

We're really seeing a mix of both. And I think it's interesting that for the first time ever, more than 50% of our net new ACV in Q4 came from our existing customer base as opposed to landing new logos. And so, this expansion motion, these large customer momentum are kind of recent big drivers of growth. Within NRR, within expansions, we really do see a mix. A customer may acquire more assets. They may start within a subsidiary or within a geography and then expand wall to wall across that one specific license across all of their assets. They may also add additional products. And so more than 70% of our customers are subscribing to two or more products. Within our large customers the ones that pay more than \$100,000, 90% are subscribing to two or more products. And so it's really a nice mix of additional licenses as well as cross-sell into some of these newer products.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. I want to make sure we touch on margins. Gross margins right now, right around the 70% range. How should we think about sort of longer-term where those gross margins go? And what are the main kind of puts and takes on the gross margin line we should be aware of?

Dominic Phillips

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



Yeah. So low-70s today, longer-term model get is getting us into that mid-70s. I think there's optimization that we can get around things like hardware, cellular and our cloud fees. To get into the higher-70s or to get higher than kind of our longer-term model, I think. We need to see a couple of things happen. We need some additional – we need to be able to monetize additional software features within our existing licenses.

So again, I said we released 200 software features last year are there opportunities for us to monetize the additional R&D investment that we're making. Second would be additional software-only applications, so we've collected a bunch of data from a number of different types of assets. Can we create things like workflows and – as a separate product and potentially monetize those? And then the third that we mentioned is, do we get to a world where we don't need to provide a connected device that we're able to collect all of this data directly from a third-party cloud? I think those are all opportunities for us to surpass our long-term margins.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC



Got it. Got it. On the upward margin side of the equation, you guys have given a long-term goal of 20%-plus operating margins. That's pretty far off from where we are today. You guys are still significantly negative in terms of operating margins. Gross margin is maybe I think 5 percentage points. What gives you the confidence you guys could get to 20%-plus? What do you guys see in terms of your unit economics that can get you that high?

Dominic Phillips

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



I think that's exactly right. So we talked about net retention rate. I think another important unit economic metric that we track is our LTV to CAC, which has been more than 8x. So, for \$1 dollar that we spend to acquire a customer, we're driving more than \$8 of profitability from that customer over its lifetime. The overall retention rates have been high, and that gives us a lot of confidence that we can drive toward longer-term profitability.

But as you mentioned, it's probably a ways off. We're still in kind of high-growth mode and – but we do have confidence that the underlying economics will provide the profitability. And frankly, we also see in the competitive landscape, there're a number of lower-growth, single-digit kind of growth companies that have been able to achieve higher than 20% margins. And so we feel good about our longer-term prospects.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC



Got it. I want to take a pause to make sure there's no questions from the audience before I keep going. Any questions from the audience? Okay. Presuppose there's not going to get any questions from the audience. Outstanding. All right. So we have just a minute or two left. How should investors think about the product roadmap on a go-forward basis? Today, 90% of the ARR base of Samsara is in the vehicle, right. But the ticker symbol is IOT. It's not [ph] FM (00:31:24). What's the product roadmap or sort of how should we think about the cadence of the product roadmap that is going to really kind of highlight the broader platform story here?

Dominic Phillips

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

A

I think when we think about our R&D budget, we use this investment horizon construct. So, within the given year, our R&D budget, 70% of that is spent on the one-year R&D roadmap, what are we going to get accomplished this year. 20% is spent on what are we going to get to the end of the next one to three years and then we save 10% of it for some of these longer-term bets that are beyond three years.

And so given the size of the market opportunity that we're going after and that we're – we've got multiple products within the vehicle and multiple products with – outside of the vehicle. I think in the next kind of, in the near to medium term, we're really going to focus on these applications that we have and how do we build them out more fully, how can we find better ways to monetize the data is likely going to be kind of near, medium term before we go off into another industry or product set.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. And then just to leave just love to get your sort of pulse on sort of the overall spending environment. Obviously, the markets have been volatile, inflation, supply chain. There's a lot of different things that could be on the mind of your end customer. Has this impacted spending intentions with you or any of the demand trends that you guys are looking at?

Dominic Phillips

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

A

Yeah. It's – I'd say I've never seen customer demand stronger. I think customers are realizing that they need to digitally transform their businesses to be competitive and frankly, to operate more efficiently and safely. They are actively looking for ways to save more money. And we've been able to prove that a dollar spent with us is going to provide many multiples of cost savings across as we've talked about within vehicles, things like insurance and accident reduction and fuel savings and in the physical sites like additional safety savings. And so these are savvy customers, they – that will spend dollars if they know they can ultimately save more money. And we've been able to prove that, and the customer demand has been very strong.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Outstanding.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

That takes us over a little bit over our allotted time. Any last words you want to leave us with?

Dominic Phillips

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

No. That's...

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

That was a good one, believe me.

Dominic Phillips

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

Okay. Great. Let's end there.

Keith Weiss

Analyst, Morgan Stanley & Co. LLC

Outstanding. Thank you so much for joining us. Great conversation.

Dominic Phillips

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

Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.