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# Samsara, Inc. (IOT)

Q1 2023 Earnings Call

## CORPORATE PARTICIPANTS

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**Dominic Phillips**

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## MANAGEMENT DISCUSSION SECTION

**Mike Chang**

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

Good afternoon and welcome to Samsara's First Quarter Fiscal 2023 Earnings Call. I'm Mike Chang, Samsara's Vice President of Corporate Development and Investor Relations. Joining me today are Samsara's Co-Founder and Chief Executive Officer, Sanjit Biswas; and our Chief Financial Officer, Dominic Phillips.

In addition to our prepared remarks on this call, additional information can be found on our shareholder letter, press release, investor presentation and SEC filings on our Investor Relations website at [investors.samsara.com](https://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. Any forward-looking statements that we'll make on this call are based on assumptions as of today, June 2, 2022, 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, Samsara's discussions will include our first quarter fiscal 2023 financial results. We 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 revenues and revenue growth. Reconciliation of GAAP to non-GAAP financial measures are provided with a press release and investor presentation.

We'll make opening remarks, dive into highlights for Q1, and then open up the call for Q&A. With that, I'll turn the call over to Sanjit.

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## Sanjit Biswas

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

Thanks, Mike, and thank you, everyone, for joining us today. We had a strong start to the year, surpassing \$600 million of ARR in just the seventh year since our founding. This represents 59% year-over-year growth and is a great milestone for the company as we continue to grow at scale. We also surpassed 15,000 core customers, and continue to see exceptional growth in our 100,000-plus ARR customers. This segment now represents approximately 900 customers spanning various industries. It includes the addition of COACH USA., Oklahoma City, a major United States provider of automotive, travel and financial services, and two Fortune 500 customers, one of the largest home improvement retailers in the United States and one of the world's top 10 global retailers. Samsara is operating at a scale that's hard to replicate.

The amount of IoT data we processed in our connected operations cloud more than doubled last year to about 4.6 trillion data points. In addition, API calls grew to 33 billion last year, an increase of more than 4x year-over-year. We use this massive amount of data to regularly train our AI models and enhance our benchmarking data. Our year-over-year growth speaks to Samsara's integral role in supporting digital transformation and physical operations. Our customers provide mission-critical services that keep our planet running and represent over 40% of global GDP. Now more than ever, they're investing in digital technology to streamline operations and increase efficiencies and we are here to help.

Our customers come from every segment of the world of physical operations. They help keep the world running whether it's constructing infrastructure, maintaining utilities, clearing snow off the streets or managing the global supply chain. Many have been around for over half a century and weathered challenging cycles in the past.

Today, the world is facing a particularly challenging macroenvironment with inflation, rising interest rates, tightening supply chains, tight labor markets and geopolitical uncertainty. These challenges represent Samsara's biggest opportunities to add value for our customers. We are proud to partner with our customers to use data to mitigate cost challenges including labor inefficiencies, asset and fuel inefficiencies, insurance costs, compliance, safety and emissions.

Using the Samsara Connected Operations Cloud, our customers are seeing their investment return several times over. Let me share three examples. First, GP Transco is a trucking logistics company with over 400 drivers, 410 tractors, and 550 trailers. They use Samsara to improve fuel efficiency and reduce vehicle idling by 35%. They've saved an estimated 205,000 gallons of fuel. That's over \$350,000 in savings. GP Transco used these savings to fund driver pay increases and bonus programs, giving them a competitive edge in this market.

Second, Heniff Transportation Systems, a leader in liquid bulk transportation, is using our video-based safety with 1,800 drivers and site visibility across their 80 terminal locations nationwide. They're proactively coaching drivers and employees to reduce spend on insurance claims. Heniff estimates a 50% reduction in liabilities because of our technology.

And third, UFP Industries, the leading manufacturer and distributor of wood products, is using the Connected Operations Cloud to streamline worker productivity. They wanted to improve operational visibility, driver safety, and customer service. Our solutions are used in 350 private fleet trucks to complete over 200,000 deliveries a year. By going paperless with Samsara, UFPI estimates they save \$600,000 annually.

These examples show how Samsara's Connected Operations Cloud is being used by our customers to improve worker productivity, streamline their operations, and reduce their cost stacks. It's these kinds of cost savings that are helping our customers combat inflation, and maintain competitive footholds in their industries.

As you may have seen in April, we released our inaugural ESG report. In it, we share how we're building a safer and more sustainable world through our customers' operations and our own. Our customers are vitally important to the global economy. Small shifts in their operations can dramatically reduce their environmental impact and improve the lives of employees. With over 4 trillion data points captured last year alone, Samsara is uniquely positioned to impact our customers' ESG goals, especially around emissions reporting, worker safety and efficiency.

Take Summit Materials, a leading construction materials company. Their goal is to be the most socially responsible provider in the market and achieve net zero emissions by 2050. To achieve the goals outlined in their ESG report, they needed more reliable data and deeper visibility across their operations. Summit is using Samsara's Vehicle Telematics, Video-Based Safety and Site Visibility. With Samsara, they expect to save approximately \$1 million per year in fuel costs. That's a reduction of more than 2,000 tons of CO2 emissions or over 175,000 gallons of fuel. They also saw 33% decrease in preventable vehicle accidents in one year.

We're also helping Sunrun unlock new ways to meet their sustainability goals. As outlined in their latest impact report, we're helping them reduce transportation emissions by transitioning half of their vehicle fleet to electric or hybrid. We also made great strides on our own ESG goals this quarter. Doing this helps us better understand our customers' ESG journeys and guide them. Samsara is carbon neutral, and we're committed to maintaining carbon neutrality and achieving net zero emissions by 2040.

As I mentioned earlier, the world of physical operations represents more than 40% of the global GDP and keeps our world running. We want our Connected Operations Cloud to be the foundation supporting digital transformation in this space for decades to come. As part of this, we are prioritizing profitability because we plan to be a sustainable, long-term business. We improved our operating margins by more than half year-over-year and remain committed to key operational drivers for profitability, disciplined capital allocation, reducing hardware costs and efficient go to market strategy focused on renewals and expansions.

We're also focused on building capacity to serve increasing customer demand. Q1 was our best hiring quarter since the pandemic began, driven in part by our well-received work from anywhere strategy. 90% of the new hires in Q1 are remote-first employees. By expanding our operations, we're able to leverage the efficiencies of a global talent pool, bolster customer support, and accelerate region-specific go-to-market strategies. We plan to sustain our hiring momentum throughout FY 2023 in order to serve our growing base of customers.

Last, I'd like to thank all Samsarians, as well as our customers, partners, and investors for their continued support. We're in the early stages of this tremendous opportunity and look forward to what's ahead. We're excited to continue the partnership at our first ever in-person customer conference, Samsara Beyond on June 15 and 16.

With that, I'll hand it over to Dominic to go over the financial highlights for the quarter.

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## Dominic Phillips

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

Thanks, Sanjit. As a reminder, please refer to our shareholder letter, press release, and investor presentation at [investors.samsara.com](https://investors.samsara.com) for additional information on our Q1 results and guidance. Q1 was highlighted by strong top line growth at scale due to continued large customer momentum, multiproduct strength, and significant

expansions within our existing customer base. Our ending ARR in Q1 was \$607 million, growing 59% year-over-year, and Q1 revenue was \$143 million, growing 63% year-over-year.

Our investments in serving the largest physical operations customers continue to pay off. We now have 897 customers with ARR of more than \$100,000 each, a quarterly increase of \$91,000 and an annual increase of \$379,000 or 73% year-over-year growth. Samsara is purpose built for large customers with complex operations that want full visibility and control over thousands of disparate assets on one integrated platform. Additionally, large customers are generally more stable in uncertain macroeconomic environments. They have stronger long-term unit economics and higher retention rates.

Our investments in large customer opportunities coincides with the de-emphasis in acquiring customers with less than \$5,000 of ARR. As a result, the number of \$100,000-plus ARR customer additions in Q1 surpassed the number of sub-\$5,000 ARR customers acquired for the first time ever, and we expect that trend to continue.

Additionally, multiproduct transactions continue to contribute significantly to our top line growth, showing the strength of our Connected Operations Cloud in the market. 7 of our 10 largest deals in Q1 included subscriptions to two or more products. More broadly, more than 70% of core customers and more than 90% of \$100,000-plus ARR customers subscribed to multiple applications.

We're also seeing multiproduct adoption at scale. At the end of Q1, our two connected fleet applications, Video-Based Safety and Vehicle Telematics, each represented more than \$250 million of ARR, and our remaining non-vehicle applications combined to contribute more than 10% of total ARR.

And finally, while Q1 was another record quarter of new core customer additions, it was also the second consecutive quarter that expansions to existing customers drove more than 50% of net new ACV. As a result, our dollar-based net retention rate for core customers and large customers continues to be greater than our target of 115% and 125%, respectively.

In addition to our strong top line performance, we continue to operate more efficiently as we scale, and we saw strong year-over-year leverage across all functions. Our Q1 non-GAAP gross margin was 73%, a year-over-year improvement of approximately 2 percentage points, primarily from product optimizations, improved commercial strategies, and larger scale.

Our operating margin was negative 18%, an annual improvement of more than 50%, or approximately 24 percentage points year-over-year, driven by leverage across all functions. And our adjusted free cash flow margin improved by 10 percentage points year-over-year, driven by the operating leverage I just mentioned, but partially offset by negative net working capital.

A key component of our solution is providing IoT devices that connect physical assets to the Samsara cloud. More than 75% of our adjusted free cash flow in Q1 was related to payments for IoT devices. And while these purchases result in negative net working capital today, while we're growing rapidly, we anticipate net working capital will turn positive in our long-term model, primarily from a more stable global supply chain, improved device optimizations, and a larger renewal base that won't require new devices, all of which will lead to operating margin and free cash flow margin converging over time.

It's also worth noting the global supply chain disruption continues to put pressure on critical component costs and availability. We expect inventory cost and lead times to remain high for the foreseeable future, but we also expect they will normalize over time as the supply chain ramps to meet demand. But even in the face of this challenge,

we improved our gross margin, we improved our adjusted free cash flow margin, and we shipped enough IoT devices to meet all customer demand for the quarter.

And the final Q1 point I want to make is regarding hiring and head count. Q1 was our largest hiring quarter since pre-COVID and almost 50% of our net new employees joined our go-to market teams. We primarily utilize a direct sales model, which means adding more sales capacity, along with improving productivity, are key drivers of future growth. As a reminder, we reduced head count at the beginning of FY 2021 during the onset of COVID, to manage costs in an uncertain macroenvironment, and we started to rebuild our head count capacity last year. We're now above pre-COVID head count and on track to accelerate our head count growth in FY 2023, while maintaining a commitment to margin improvement each year.

Okay. Now turning to guidance, for Q2 FY 2023, we expect total revenue to be between \$142 million and \$144 million, representing year-over-year growth between 41% and 43%, and non-GAAP operating margin to be approximately negative 22%. Based on our strong Q1 results and updated outlook for the remainder of FY 2023, we're raising our full year revenue guidance to \$590 million to \$600 million or 38% to 40% year-over-year growth. We also identified additional savings from operating efficiencies without sacrificing investments to growth, given the strong demand we're seeing from customers. So in addition to increasing our top line guidance, we also raised our FY 2023 operating margin guidance to negative 20% or an implied non-GAAP operating income improvement of \$7 million. And finally, we also included some additional modeling notes for Q2 and full year FY 2023 in our shareholder letter.

To wrap up, we are very pleased with our start to the year and our improved outlook for FY 2023. We are benefiting from the secular transformation of physical operations and we believe that the macro volatility caused by high inflation and a tight labor market is making Samsara even more imperative to our customers. And we remain committed to continued operating efficiencies on our path to profitability through scale, product enhancements, global employee expansion, and cost optimization, all without sacrificing the incredible customer demand we're experiencing.

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

## QUESTION AND ANSWER SECTION

### Mike Chang

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

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 Kirk Materne at Evercore, followed by Keith Weiss at Morgan Stanley.

### Kirk Materne

*Analyst, Evercore Group LLC*

All right. Thanks very much. And congrats on the quarter. Guys, I was wondering if you all could just talk a little bit about what you're seeing in your pipeline build and maybe juxtapose that versus what you saw at the beginning of 2020. Obviously, everybody is pretty nervous about the macro, but I imagine for your business, it's very different today, just given your size and scale and the maturity of the business. So, can you just give us a bit of a sense of what you're seeing on this sort of pipeline build?

Also, Dom, can you talk a little bit about the sequential guide on revenue? Why you're seeing it sort of flat sequentially makes sense given that sort of deviates from the pattern we've seen over the last year at least? Thanks.

### Sanjit Biswas

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

Great. Kirk, this is Sanjit. I'll start with your first question around pipeline build. So in general, we are on track in terms of pipeline build for the year and we're seeing healthy incoming inbound business leads and so on from across different industries. So we serve a variety of industry segments, including construction, field services, local governments, transportation, and we are continuing to see growth there.

I think this is very different than what we saw at the beginning of 2020, when effectively a lot of the world froze or shut down. It was just uncertain what was going to happen. And what turned out to be the case was that the industries we serve are the essential industries. They're the ones that keep the energy utilities running, keep the water running, and so on. So they sprang back very quickly. I think that was just not clear at the beginning of 2020, whereas right now what we're seeing is even with inflation, even with macro uncertainty, people don't need waste management. They still need energy utilities around this. They still need the local governments, and they need food and beverage to continue to operate. So I think while everyone is keeping their ear to the ground to understand what might happen in the future, these industries are really robust and they're truly essential industries.

### Dominic Phillips

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

Yeah. And again on the – I think we feel good about what we're seeing in the pipeline and that allowed us to raise our full year revenue guidance for the year. And then, just on your Q2 sequential revenue guidance question, Kirk, again, this is similar to the kind of comments that I made three months ago during our Q4 earnings call. This is our first year as a public company. And so we want to make sure that we're putting out numbers that we feel highly confident about hitting. And so, this is similar to the Q1 guide that we provided three months ago, but we're

not seeing any major negative impacts for our business. We are aware of the broader macro factors that we've talked about that may impact the economy, but we're not seeing anything in our pipeline that concerns us.

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**Kirk Materne***Analyst, Evercore Group LLC*

Great. Thank you, all.

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

Great. Our next question comes from Keith Weiss at Morgan Stanley, followed by Michael Turrin at Wells Fargo. Keith? Okay. Let's go to the next question. We'll come back to you, Keith. Our next question comes from Michael Turrin at Wells Fargo.

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**Michael Turrin***Analyst, Wells Fargo Securities LLC*

Hey there. Thanks. I'm here. It's clear just from the initial question, we're feeling a lot of questions on the macro. Some of your customers are dealing with things like supply chain complexity, inflation, but you've referenced there are elements of the products that that can help with things like fuel savings and efficiency gains. So, anything you can add and just your latest view on those market crosswinds, if there are observations you can share from recent customer conversations that showcase certain elements of the product portfolio, that's all very helpful.

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

Sure. So, Michael, this is Sanjit. I've been spending a lot of time over the past months out in the field beating customers both here domestically in the US as well as out in Western Europe. I think we are seeing a couple of trends there that are very related to these kind of macro issues. Fuel savings, as I highlighted in the shareholder letter and earlier in the earnings call, it is something that's very front of mind. This is an operating expense for our customers across all these industries. And frankly, they'd like to find ways to save money on that, especially the rising cost of fuel. So, our product has been essential in terms of helping them quantify, where those fuel expenses are going and finding opportunity to reduce those fuel spends by 15%, 20%, 30% in some cases. So that's one area.

I think the other area that's related is you mentioned the supply chain crunch. That affects the availability of vehicles for many of our customers as well as other kinds of equipment. So that could be construction equipment, trailers, generators, compressors and so on, which means that they need to find ways to sweat their assets and run them for longer lifetimes.

And specifically, I'm thinking of a customer conversation I had two weeks ago. They said we normally run our vehicles for 600,000 miles. We're now trying to find a way to run them for 900,000 miles. And we're using the Samsara products to understand which of those vehicles needs maintenance and might break down and cause unplanned downtime. And they're being very data driven about how do they run those assets for longer. So that's how they're combating the supply crunch. They're still seeing a ton of customer demand from their end customers. They just can't get new assets to deploy out in the field. So they're trying to be smarter about their operations. So those are hopefully just two helpful examples of how people use our technology.

Maybe the third one, if I can cramp one more in there, would be just around insurance costs. Distracted driving continues to be an issue, accident rates are still very high. And in these kind of – in these macroenvironments, our

customers have been very conscious around costs. So they're looking to reduce accidents, lower their insurance premiums, exonerate their drivers. And so, I think our driver safety products continue to also do very well for that reason.

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**Michael Turrin***Analyst, Wells Fargo Securities LLC*

That's very helpful. That's great detail. Dominic, if I can sneak in a follow-up, you added more than 90 customers to that \$100,000 customer metric during Q1. Can you just speak to the drivers there? Is that unusual for Q1? Is there anything in the demand environment that's driving that or is this more just natural expansion within customers that helps explain that? Maybe you can just put some context around that metric as well.

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

Yeah. I mean, Q1 is our seasonally lowest net new ACV quarter. We did 66 in \$100,000-plus adds in Q1 of last year. So the 91 was a great start to the year and it was kind of in line with what we saw in Q2, Q3 and Q4 of last year. But this has been a concerted effort and an investment focus for us for a long time, really building out an enterprise sales segment, a field team to go after these customer opportunities.

And we're also seeing it within the expansion numbers. Again, this is the second quarter in a row where more than 50% of our new bookings came from our existing customers. And those tend to be the larger customer as well. But overall, our customer demand remains really strong. Our productivity improved year-over-year from our fully ramped sales reps. We came in slightly ahead of our forecast. And so it was really solid Q1.

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**Michael Turrin***Analyst, Wells Fargo Securities LLC*

Great. Thank you.

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

Thanks, Michael. Let's come back to Keith and see if we can get him back online here.

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**Keith Weiss***Analyst, Morgan Stanley & Co. LLC*

Excellent. Can you hear me now, guys?

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

Yeah. We can hear you, Keith.

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**Keith Weiss***Analyst, Morgan Stanley & Co. LLC*

Awesome. Sorry about that. So very nice quarter. Thank you for taking the question. I think two for Dominic. You talked about a kind of more of a focus on profitability [ph] and that ramps (00:23:35) profitability. We saw that in the quarter with the outperformance on margin. Should we be thinking about a kind of faster ramp for profitability? Can you give us maybe a sort of a longer term view on what that means in terms of when we should expect you guys to get to either breakeven on an operating income line or a free cash flow line? That's part one.

Part two. The other part of the equation that's really top of mind for a lot of investors right now is stock-based compensation. Particularly with companies that have hired a lot over the past year at a point where their stock prices were materially higher. So, how are you guys thinking about stock-based compensation? Is there a prospect of a larger grant coming up to make employees whole or something that investors should be aware of on the horizon?

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

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Sure. Thanks, Keith. So on your first question, the path to breakeven whether it's on free cash flow, is probably going to come for us first on operating margin, because of the networking capital dynamics of our business. But it's definitely a big priority internally. We have a number of initiatives that we're focused on that we're going to accelerate the timeline that we've determined over the last kind of three months. I still think we're probably a few years away. I'll provide a more kind of firmer timeline as being closer to that milestone. But I think regardless of that timing, we are committed to showing more leverage across both operating margin and free cash flow margin each year on that path to breakeven.

On the second question, in terms of SBC as a percentage of sales for Q1, for us, it was just over 30%. I expect that that will decrease over time. And I do think that it will be lower for the full-year than it was in Q1. The first half of this year is being impacted by two things. We have some accelerated SBC expense that's tied to the pre-IPO shares that vested at the time of the IPO, that's impacting the beginning of this year. And then we do our large annual equity refresh in the middle of Q1. And so, we will see a little bit more of that expense in kind of the first half of the year. But I do expect that the second half of the year will be lower.

I think another way that we look at this is on an SBC as a percentage of OpEx and COGS. And for us, it was 20% in Q1. And when we look at that benchmarked to other recent software IPOs, it's actually quite favorable, and it's actually in line with some of the at-scale SaaS companies. So it's something that we're tracking, monitoring. And on both of those metrics, we expect to see improvements over time.

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**Keith Weiss***Analyst, Morgan Stanley & Co. LLC*

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Got it. So the grants in Q1, those are kind of in line with kind of historical granted. There's nothing kind of out of the ordinary because of the pullback in the stock price?

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

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Yeah. So, we typically have two comps cycles a year. We do one it at the beginning of the year and we do one at midyear. And so we're going to – we'll look at that comp again in a few months. But other than those normal new hire grants and the and the equity – the annual equity refreshes we did at the beginning of year, we haven't done anything off cycle. But, with that, I will say that we're always evaluating comp for inequities. But we haven't done anything more broadly beyond that.

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**Keith Weiss***Analyst, Morgan Stanley & Co. LLC*

Q

Perfect. Thanks so much, guys.

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

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Great. Our next question comes from Matt at William Blair, followed by Kash at Goldman Sachs.

**Matthew Pfau***Analyst, William Blair & Co. LLC*

Q

Hey, guys. Thanks for taking my question. Wanted to ask on the John Deere partnership that you mentioned in the shareholder letter. Any additional details on that and any sort of plans to build out a broader suite focused on digitizing the farming space? Thanks.

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

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Happy to take that. So, Matt, I'm glad you're able to see that in the shareholder letter. We're really excited to bring John Deere onto the platform. And this is, again, connecting all of their different kinds of equipment that used to be on JDLINK into the Samsara Operations Cloud. So, we have been building the site as a strategy not just for farm equipment or construction equipment, but all kinds of equipment. So we've partnered with Ford International, Volvo and others in OEM integrations to bring that data into the cloud.

I would say, this is again just trying to give our customers full visibility over Connected Operations. So while Deere has farming equipment, we also are partnering with others that make construction equipment and others that make generators and compressors and so on. And I would expect to see that that will continue over the next couple of years.

**Matthew Pfau***Analyst, William Blair & Co. LLC*

Q

Okay, great. And one follow-up for Dominic, if I may, just on the margin guidance for the year. I think you guys had previously communicated that we should expect revenue upside to be reinvested in the business and for the margin guidance to sort of remain consistent throughout the year. You brought it up a bit. You said it was due to some operational efficiencies. Should we view this as maybe a onetime thing and that your plan is to continue to hold it steady going forward or should we expect revenue upside to produce some improvement to the margin guidance going forward?

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

A

Yeah, Matt. Thanks for pointing that out. I think our posture on that has definitely changed over the last three months where we were potentially going to have implied operating profit, be lower in keeping margins flat as we improved our revenue guidance throughout the year. You saw in this quarter not only did we improve our revenue guidance, but we also took up our operating margins for the year, which resulted in that \$7 million of implied operating profit. I think that's something we're going to be focused on going forward as – is really looking at the implied operating profit, and do not expect that to get worse. And ideally, we can continue to make improvements as we scale the business.

**Matthew Pfau***Analyst, William Blair & Co. LLC*

Q

Great. Thank you.

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

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

**Kash Rangan***Analyst, Goldman Sachs & Co. LLC*

Hey. Thank you very much. Congrats on the quarter. I was curious to get your thoughts on customer acquisition economics. I'm sure that you look at the metrics in a far more detailed manner that we're not able to just look at the reported financials. Any trends that you see as the macroenvironment arguably gets a little bit more challenging, how are you monitoring, how you spend, and how that dollar of spend is translating into revenue at an attractive economics?

And also, if I could, you've had the entire month of May after closing the quarter. Have things changed or with respect to linearity of business, pretty much playing out the way you expected? Any thoughts there would be highly appreciated. Thank you so much, guys.

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

Yeah, Kash, I'll – let me start there and then Sanjit can pile on. We'll talk a little bit more about some of the kind of unit economic data at our Investor Day coming up in a couple of weeks. But we are looking at CAC payback period, LTV-to-CAC, net retention rates across different products, different geographies, different sales segments. And they continue to be strong. Our LTV-to-CAC continues to be more than 8x. And so, we have really strong long-term profitability. In the investments that we're making and we're not seeing payback periods increase over time.

And then, in fact, I kind of made the point in one of the other questions that we saw the productivity per ramp to rep improve year over year, which gives us confidence that we should continue to invest in the business. And as we talked about, we're going to – we plan to accelerate head count growth this year. And I'd say that what we're seeing out of May so far, getting through month one, we feel really good about and that is factored into the guidance that we just provided where we were able to pull up guidance for the year.

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

Yeah. I don't think I have anything significant to add to that other than it is sort of playing out as expected in the month of May. And that's again why we felt confident moving guidance up.

**Kash Rangan***Analyst, Goldman Sachs & Co. LLC*

May it continue. Thank you so much.

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

Thanks, Kash. Our next question comes from Derrick at Cowen, followed by Ethan at Wolfe Research.

**Derrick Wood***Analyst, Cowen & Co. LLC*

Hey, guys. Congrats on a strong quarter. First question, we've heard a lot about your commitment to customer success and listening to customer needs from your installed base. How is this helping drive more wallet share? And I guess outside of telematics and safety, what do you see as the next strongest emerging product to cross-sell?

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

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Sure, Derrick. I'll take that. This is Sanjit. So, one of the areas that we have seen, and I'll kind of answer both questions at once. One of the areas we've seen healthy growth has been around connected equipment. So these are non-fleet assets that our customers have as part of their physical operations. I've mentioned construction equipment in one of the previous questions. There's all different kinds of equipment out there. And so, bringing those assets onto the Samsara Connected Operations Cloud has unlocked even more value for the customer. It's oftentimes an add-on or follow-on project. And you see that in our expansions that have been occurring over time. But that's how when we run that customer feedback loop, when we build these deep relationships, we're able to expand within these opportunities. And there was a slide in the presentation earlier around multiproduct adoption. Our largest customers, 90% of them, are using multiple products from us. And so that is, I think, how we're driving a lot of the expanded share of wallet, which is finding more areas of value to unlock for the customer.

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

A

And I'll just add on there. I mean, the customer success team for us is instrumental and their singular focus is on our net retention rate. And I'll share – I'll give you an update on where that is at Investor Day in a couple of weeks. But as we said, we continue to be above our target and we are seeing that trend up over the last several quarters. And so – and a lot of that is, to what Sanjit just mentioned, customers, especially larger customers coming back and expanding more seats and more products.

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**Derrick Wood***Analyst, Cowen & Co. LLC*

Q

Thanks. That's great to hear. And, Dom, one for you. I mean, nice job on the strength of gross margins, but it does sound like you're still seeing some higher component costs. So how are you managing those costs and how should we be thinking about the gross margin trends for the rest of the year?

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

A

Yeah. I think with the increasing cost, we've been able to find additional savings to more than offset those costs. And so whether it's cloud or cellular fees – and you can see that, our gross margin improved from 71% in Q1 of last year to 73% in Q1 of this year. And so even with the increased costs that we've seen, we've been able to find other – more than enough savings to offset that.

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**Derrick Wood***Analyst, Cowen & Co. LLC*

Q

So you feel good about kind of maintaining this kind of seven-handle plus?

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

A

Yes. I think we'll stay above 70%. And again, I think, the – our outlook for the rest of the year is kind of in line with where we were three months ago, that we expect to be in the low 70s.

**Derrick Wood**

*Analyst, Cowen & Co. LLC*

Got it. All right. Thanks.

**Mike Chang**

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

Thanks, Derrick. Our last question for today comes from Ethan at Wolfe.

**Ethan Bruck**

*Analyst, Wolfe Research*

Hey, guys. This is Ethan Bruck on Alex Zukin. Thank you for taking my question. So I have two questions. The first one is, you guys had the same amount of large customers out in the quarter, which is great to see. So I guess my question specifically is around new customers. I guess what gives you confidence as the macro environment gets tougher, that net new customers to the platform, especially larger enterprise customers will still continue to adopt Samsara solutions?

**Dominic Phillips**

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

Yeah. Maybe I'll take that. I think that that's what gives us – we're really excited about is that not only was it a really strong expansion quarter, it was also our largest core customer addition quarter that we've ever seen. And so it's a really nice balanced mix now between new customers and expansion that's roughly 50/50 in terms of net new ACV bookings mix.

**Ethan Bruck**

*Analyst, Wolfe Research*

Got you. Thank you. And the second one is the beat in the quarter was stronger than last quarter, and also sort of equally strong really, so I guess how should we consider how much of mix of confidence versus conservatism is factored into the full year outlook, just considering how the macro today and how you guys are viewing the environment and just the outlook in general for your customers for the rest of the year and into 2023? Thank you.

**Dominic Phillips**

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

Yeah. I think getting through Q1 and having the success that you saw in terms of the beat gives us a lot of confidence. As I kind of mentioned, that customer demand remains really strong. Our productivity grew year-over-year. We were ahead of our forecast for Q1 and our outlook remains really strong, which gave us the confidence to raise the top line guidance for the rest of the year.

**Ethan Bruck**

*Analyst, Wolfe Research*

Okay. Great. Thank you, guys.

## Mike Chang

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

Perfect. So this concludes the question-and-answer portion. Thank you all for attending our Q1 fiscal year 2023 earnings call. Before I let you go, I have a few short announcements. First, we'll be attending the William Blair Growth Stock Conference in-person on June 7, and we look forward to seeing you there. Second, we're hosting our inaugural Investor Day on June 15 in San Francisco, where we will be providing additional insights of the Samsara's trajectory and the overall state of physical operations. Our Investor Relations website web link to the live broadcast. So that's it for today's meeting. If you have any follow-up questions, you can email us at [ir@samsara.com](mailto:ir@samsara.com). Thanks again. Bye, everyone.

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