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Samsara, Inc. (IOT)

William Blair Growth Stock Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Matthew Pfau
Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Matthew Pfau
Analyst, William Blair & Co. LLC

Okay. Great. Apologies for that and apologies for not being there in person. So, I'm Matt Pfau. I'm the analyst that covers Samsara at William Blair. For a complete list of disclosures, you can visit www.williamblair.com. And we have with us here today Dominic Phillips, the CFO of Samsara, very excited to have you guys here. For those maybe that are less familiar with Samsara and what you've been doing, perhaps, Dominic, you could start off by just giving a brief overview of Samsara's business.

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

Yeah. Sure. So, Samsara is effectively connecting the world of physical operations to the cloud, and we are collecting and aggregating, organizing data from physical operations assets. So, things like commercial vehicles, field equipment, physical sites, factories, warehouses. And we're taking all of this data into the Samsara Cloud, and we are layering on AI and ML smart technologies that surface insights and analytics for our customers. They use that data and then they run their businesses more efficiently, safely, sustainably.

The company is seven years old, founded in 2015. We've been selling for about six years. We are – we just had our Q1 earnings call last week, $607 million of ARR, growing close to 60% year-over-year.

QUESTION AND ANSWER SECTION

Matthew Pfau
Analyst, William Blair & Co. LLC

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And the market that you address with physical operations is very unique and much more unique than a lot of other software businesses. So, maybe you can sort of dive into that a little bit in terms of the markets you're targeting.

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

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Yeah. So, the world of physical operations is interesting. It's actually 40% of global GDP. These are industries like manufacturing, logistics, transportation, field services, utilities, construction, oil and gas. These are industries that have been very underserved by technology, historically. And we're at the kind of early innings of digital transformation and physical operations. And we've seen this in the world of consumer, we've seen it in enterprise, and now we're kind of in the early innings for physical operations. And so, it's a really large market opportunity. Again, customers that have been very underserved by technology, but are increasingly looking to automation and technology to find ways to run their businesses more efficiently and safely.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And so, 40% of GDP, obviously, that would probably result in a huge addressable market for you, guys. But maybe just be helpful to let folks know how you sort of think about your addressable market.

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

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Yes. So, our current products, we kind of bucket them into three different areas: connected fleet, connected equipment, and connected sites. Those products from a top-down perspective address a market today that is $55 billion, that is expected to grow to close to $100 billion over the next few years. And it's really being driven – that growth is being driven by a couple of different things.

One, the expectation that more connected assets will be available. And so, a lot of these physical operations assets that I mentioned, again, like, vehicles, equipment, sites, these things are not connected to the Internet today. Increasingly, that will be the case as OEMs build them. And then, some of the technology is newer. So, our leading product today is safety. So, vehicle-based safety, it's an AI dash cam within a vehicle. That is technology that frankly just wasn't available five years ago, and the penetration rate of that technology today is still very, very small. And so, more connected assets, newer products are driving the growth rate in that overall market.

Matthew Pfau
Analyst, William Blair & Co. LLC

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In the connected fleet opportunity, which I think you said on your last earnings call, if we look at both telematics and video safety is now over $500 million in ARR, how penetrated are you there? And what continues to drive the really strong growth you're seeing within that specific opportunity?

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

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Yeah. So, within that $55 billion, from a top-down perspective, I think just a little over $30 billion of that is tied to the connected fleet, and that is expected to grow to more than $60 billion over the next few years. We're still – and again, I said we've $600 million of ARR. So, we're still really in the early innings of just kind of penetration. I mean that we've got our Investor Day next week. I'm going to share some more kind of bottoms-up data. But there are tens of millions of vehicles across kind of North America and Europe, and we are mid-single digits kind of in terms of penetration.

So, we're really excited about the market opportunity in front of us just within connected fleet. And across all of our products, they're all kind of growing at the same rate. The overall ARR mix between fleet, equipment and sites has been relatively consistent over the last couple of years, which means they're all growing kind of at the same rate. And we're excited about the kind of penetration opportunity across the board.

Matthew Pfau
Analyst, William Blair & Co. LLC

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What about the value proposition to the customer and maybe it makes sense to parse it out a little bit by product. But obviously, there's a strong ROI there. Maybe just help frame that for people, so they understand the attractiveness of Samsara's products.

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

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Yeah. So, this is primarily an ROI-driven sales to these physical operations customers. They are spending money with us. And with this technology, they're able to save more money across all of their cost stack. So, if you think about just within the fleet opportunity, like, what is the cost stack for these companies. They've got to pay driver wages. They need to pay – they've got accidents that they need to cover. They've got insurance premiums, fuel, maintenance. So, these are all areas that they use the same sort of technology to ultimately save money.

And we called out on our Q1 earnings call a number of different ROI examples you can look up on our website. There's a bunch of examples on there as well. But ultimately, we are saving our customers many multiples of what they're spending on Samsara. And that is really what's driven a lot of our kind of scale and growth is that strong ROI dynamic.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And the products have always had a strong ROI. I would imagine that in the current environment, higher fuel prices, inflation, that would just make it even more attractive. But can you speak to if that's driving any change in customer conversations that you're having?

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

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It's definitely a play that we're running more recently. In a rising price environment, ROI is increasingly important and an obvious one of the largest expenses for these customers that run vehicle fleets is fuel. And so, providing them fuel usage reports and idling reports and understanding which vehicles are the most efficient or which drivers are the most efficient using that technology, our customers are able to save hundreds of thousands of dollars of – of gallons of fuel a year, which results in a lot of additional savings. We called out Summit as one of the examples in Q1 that is saving more than $1 million a year just in fuel savings because they're using our technology. And so, in a normal environment, these customers are, again, really looking for ROI and to save money in an environment where prices are increasing. It's even more topical and that has drove a really strong Q1 for us.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And so, particularly on the enterprise side, many of these customers are going to have at least some sort of telematics solution within their fleet. And they're obviously replacing Samsara with that legacy solution with Samsara and then adding perhaps more products on it. What's the catalyst that typically drives, especially on the enterprise level, some of these customers to come in and evaluate replacing their older products with Samsara?

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

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Yeah, it's very widespread. The way that we've got many different entry points within a customer. Again, we can land with multiple different products within multiple kind of different buyers. And so, it really depends on kind of the company's priorities. As you mentioned, telematics is a technology that's been around for decades. I think we provide a superior solution there that ultimately allows our customers to save more money. That's often the catalyst for them to make a change to us. But as I said, our leading product today is video-based safety. And oftentimes, we're going into customer opportunities where a solution doesn't exist today. And so, they want to lower – safety is arguably the number one priority for physical operations' companies. And so, if they can exonerate drivers, lower their accident costs, lower their insurance premiums, that is a massive catalyst where they're more willing to adopt this technology where they've not had that before.

And so, it really depends on kind of where the customer is in their journey. We can land with safety and then upsell to telematics later. If they are coming up on their telematics contract renewal that's an often at a time that we get in there and we can replace an incumbent and then upsell into different products later, and so many different entry points and kind of ways to expand our relationship with customers over time.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And this past quarter was your second quarter in a row where I believe that cross-sell or upsell within the existing base was about 50% of ACV growth. What is driving that? And then, how do those expansion conversations typically happen with customers? What drives that?

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

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Yeah. So, again, we're seven-year old company, selling for six years. Historically, a lot of our net new ACV was driven by landing new customers. And increasingly over the last few quarters, more of our net new ACV is coming from expansions to our existing customers, as Matt mentioned. This is the second quarter in a row that more than 50% of our net new ACV came from our existing customer base. We're seeing it across all products and we're seeing a really nice mix of both cross-sell and upsell. So, a customer may land with safety and they may only license a subset of their vehicles and they do kind of a full rollout over time. And we're seeing kind of a cross-sell as well, where it may be a telematics customer and they may do connected equipment or they may add a new license for a new set of assets.

And so, it's really kind of a nice mix, more of our business is coming from large customers. 45% of our ARR is now driven from customers that pay us more than $100,000 and that is increasing over time, which means that that customer segment is our fastest growing. Larger customers are not only – they have better kind of unit economics, but they tend to do more kind of phased rollouts and they're more willing to take on the full kind of platform of products over time. And so, as we've had more success with large customers, we've seen our expansion growth and expansion net new ACV improve as well.

Matthew Pfau
Analyst, William Blair & Co. LLC

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Got it. And now, if we move on to the competitive environment a little bit. So, I think some folks sometimes they look at Samsara and they'll try to maybe compare you guys to some of the pure telematics providers that they've known in the past, like a Fleetmatics and Omnitracs, the Trimble. How is Samsara's business different? And maybe this would be helpful to sort of speak to the platform approach that you guys take, which some of those legacy providers don't really do.

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

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I think the biggest difference with our business in general is just – is the breadth and it's across many different vectors. So, it's product breadth. It's – as I mentioned, video-based safety is our number one product. We have telematics in and we've got almost 50% of our customers are using a non-fleet solution today. Within our 100,000 plus customers, almost two-thirds of them are using a non-vehicle-based solution today. So, the breadth of the products on the platform, we sell them to many different customer segments, small, medium. As I mentioned, large customers is our fastest-growing customer segment. We're selling across multiple geographies. We're in Canada. We're in Mexico. We're in the US. We're in Western Europe.

And so, it's – I think that is really what differentiates us, as you think about across all of these different vectors, we see a very different competitive landscape. But we don't see the same competitor kind of on each of those different scales. And so, I think that is what makes us different. And it's a big reason that we're winning and having so much success.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And then, maybe on the technology side as well, thinking specifically around video safety and how you guys have been able to automate a lot of that through machine learning and AI. Maybe just sort of dig into that a little bit because I think that's something that is difficult for competitors to replicate and differentiated versus what others have out in the market.

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

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Yeah. I think that to fight on all of these fronts, it definitely requires investment, it requires innovation. And I think we have – that's where we have set ourselves apart. The technology around video-based safety just simply didn't exist kind of five years ago to have kind of the cellular connectivity, the storage, the compute, the AI technology has really vastly improved over the last several years. And so, if you've not created this project – this product more recently, it's difficult to compete on technology. And so, I think we've benefited from being a company that was founded seven years ago and all of the kind of the technology trends that have played out over the last few years, we're still investing aggressively into R&D and innovation. And ultimately, the technology and the ROI that we're able to provide to customers is a big reason that we're winning.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And then, obviously there's a big dollar ROI with Samsara's products, but I think they also play into ESG initiatives as well. So, maybe you just hit on that a little bit. Is that a topic of conversation with customers and is that something that now or in the future you think could drive uptake of Samsara's products?

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

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Yeah. So, I mean, we've talked about kind of the value props being – efficiency which means how can I operate my assets more efficiently and save money. We've talked about safety. How can I avoid accidents, lower accident costs. And then, the third kind of pillar is this sustainability ESG play which is becoming extremely – much more topical, especially for companies that operate physical operations. And so, increasingly, we're seeing customers come to Samsara with projects around ESG. And so, how can we help them with carbon emissions? How can we help them with fuel and utilization? How can we help them with our transition from diesel to electric vehicles? And so, again, with this technology as sustainability, ESG becomes more important. We're seeing more projects driven around those topics.

Matthew Pfau
Analyst, William Blair & Co. LLC

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Great. Well, let's move on to the financials a little bit and maybe you can just help folks understand how you think about balancing growth and margin improvement and then if you've set any goals or timelines around getting to profitability.

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

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Yeah, so very focused on kind of balancing both growth and profitability. We've talked a little bit about kind of where we are in terms of scale and growth. From a operating margin perspective, over the last two years, we've improved operating margins by 85%. We've improved our free cash flow margin by 75%. And so, we're very focused on continuing to show more leverage across the business as we scale. We look at things like our unit economics. This is a subscription business model, and so you spend money upfront. But as you keep customers over a long period of time, the long-term profitability is very favorable. Our LTV-to-CAC has been north of $8, which means for every $1 that we spend to acquire a customer, we're driving more than $8 of profit over that customer's lifetime, which gives us confidence that we can continue to show leverage in the business over time.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And your unit economics and customer lifetime value already impressive. How does that change as you continue to focus more on the enterprise segment and expand the breadth of your product offerings and get multiple product uptake?

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

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Yeah. So, whether it's multiproduct transactions, whether it's expansions, whether it's focusing on large customers, all of those are growth drivers. All of those have more favorable unit economics over time. And so, large customers tend to buy more, which means shorter sales cycles that means the products are stickier, which means retention rates are higher. Our net retention – expansion ACV is more efficient than when we signed a new customer. And so, all of those things are contributing to not only improved margin and profitability, but the long-term economics that you mentioned over time.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And on the profitability ramp, it might be helpful if you sort of discuss what happened with hiring during COVID and then what you've been doing now and how that will impact the financials as those folks ramp up?

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

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Yeah. So, this is a direct sales model. We hire sales reps. They go out and sell. And that is like the biggest input to growth or ACV going forward. When COVID hit at the beginning of 2020, we reduced our head count going into uncertain macro kind of economic environment. We went out and raised capital and made sure that we kind of shored up the business. We witnessed as the economy went to a two-quarter recession, things picked up again in kind of Q3. By Q4, we had our best quarter ever and we were kind of back to where we were – even better than where we were pre-COVID, but with far fewer kind of employees.

And so, our ARR per employee efficiency metrics, all of these things kind of improved. And as we saw improvement, we started to kind of rehire. By the end of last year, we were back to kind of pre-COVID head count levels. We just had our best hiring quarter ever in Q1. And so, we were – we've gone back and re-added capacity. That capacity is ramping, but it really started kind of at the end of last year and will continue throughout this year. And so, it's a direct sales model. You hire sales reps, they ramp over kind of three quarters to four quarters. And so, you make investments today and you get productivity out of those investments down the road.

And so, it means that this year, we're still limited by – not by customer demand, not by market size, but by having enough kind of ramped capacity. And so, we've been very focused on that over the last few quarters. We are doing a great job of hiring. We're doing a great job of ramping. And as we go into next year, we think that will be a really good kind of growth position with having more ramp sales capacity that can drive more ACV.

Matthew Pfau
Analyst, William Blair & Co. LLC

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And then, with recession or software macro on everyone's mind, it might be a little bit helpful to just sort of talk about how you think Samsara would perform in that type of environment. And maybe given a little bit of more in depth of your customer profile, how mission critical Samsara is to their operations? Those things might be helpful for folks to understand that dynamic.

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

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Yeah. I think we have a few favorable tailwinds. One, if you look at our end markets, it's very diversified across – I talked about field services, construction, utilities, transportation, all of these end markets that make up the role of physical operations. None of them are kind of a significant portion of our overall end market. So, we're diverse across end markets. We're diverse across customer sizes. So, small customers all the way up to large customers. We've operated through a recession, albeit it was only two quarters at the beginning of 2020. But our business was very resilient. We saw some sales cycles elongates. And as I mentioned, by kind of Q3 of 2020, we were back to pre-COVID productivity and we had our best quarter ever kind of in Q4.

So, the business is resilient. Our customers are – they've operated for – through many cycles. They've been around for decades. These aren't kind of a lot of kind of VC startup tech kind of exposure. These are companies that have operated for many decades through many cycles. They are deemed essential services. And so, field services, transportation, waste management. These are industries that continue to operate even if there is a downturn.

As I mentioned in Q1 on the earnings call, we were ahead of our internal plan. So, we had a really strong quarter. I'm talking to our sales team, if not daily, weekly on what they're seeing. And right now, our outlook for the rest of the year is intact. We're not seeing kind of a recessionary impact on our business. And so, we're extremely well capitalized. We raised over $800 million in our IPO in Q4 in December. And so, I think we've got a good customer base, a lot of diversification, enough capital to weather things if things ultimately do change.

Matthew Pfau
Analyst, William Blair & Co. LLC

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Great. And maybe zooming out a bit, big picture. If we look at the business right now, obviously, the majority is associated with fleets. But you have a lot of newer products that are not necessarily associated with the vehicle. And longer term, maybe you could speak to if there's any other areas that you think are interesting, that you think could expand into. I know you guys recently signed a partnership with John Deere, and I don't know if there's any other areas you'd want to call out that you think Samsara could address longer term.

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

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Yeah. We are very focused on the physical operations customer, that is really where we're ultimately going to be. And we think about kind of product opportunities as concentric circles. And so, a commonality between the world of physical operations is they generally have commercial vehicles, they're transporting goods, they're transporting people, they're out doing field services, but they generally have these vehicles. And by landing within connected fleet first, it's often an opportunity then to move into other parts of the business. We have those customers act as internal advocates and bring us into other parts of the business. And so, you've seen us move from the vehicle to field equipment and then into the sites.

And so, anything that ultimately touches the world of physical operations, I think, is something that would be interesting to us. And while a little less than 90% of our ARR is tied to the fleet products today, as I mentioned, almost 50% of our customers are using something of a product outside of the vehicle. And within our largest customers, the 100,000 plus customers that are driving 45% of our ARR, almost two-thirds of them are using a product outside of the vehicle.

So, I think we're just scratching the surface in terms of the ARR potential outside of connected fleet. But as I mentioned, we're still in the early innings of this – of the vehicle [ph] effort (00:23:31) and so we think there's a lot more kind of land-and-expand potential within our core business as well.

Matthew Pfau
Analyst, William Blair & Co. LLC

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Got you. And I know we're getting close on time, so maybe I'll wrap up with one more just on the financial side. We get a lot of questions on the hardware component of your business. So, maybe you can just sort of discuss how that impacts your financial model relative to other SaaS businesses and how you expect the working capital dynamic to play out over time.

Dominic Phillips
Chief Financial Officer & Executive Vice President, Samsara, Inc.
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Sure. So, from a top-line perspective, we look, feel, smell exactly like an enterprise SaaS company. We sell three- to five-year subscription licenses, almost like seat-based licenses, and the revenue gets recognized ratably. 98% of our revenue is subscription. Our key metric that we talk about from a top-line perspective is ARR. From a cost perspective, it's a little bit different. Our COGS are a little bit different than other cloud-based companies. We have things like cellular data to send the data from the physical asset to the cloud. We have inventory where we're providing devices as part of the service. We have supply chain exposure as well. And so, while we also get this deferred revenue benefit that all enterprise SaaS companies get, where you collect cash before you recognize the revenue ,that is generally – historically has been offset by dollars that go out upfront for purchasing these devices and supply chain related items.

If you go back a couple of years ago, these things were effectively on top of each other. Operating margin was within a few percentage points of free cash flow margin. Over the last year-and-half, those have started to diverge and you saw it was about 18 points of difference in Q1. We're clearly operating through this global supply chain disruption right now. And so, we've seen an increase in component costs, we've seen an increase in supply chain and the logistics to get the devices to customers. We're clearly not operating in a normalized environment. We think that longer-term, as the supply chain normalizes, as it ramps to meet the demand, that free cash flow margins should come back in – more in line with operating margins. And so, we think about operating margin is kind of the precursor for efficiency and profitability and when we operate in a more normalized supply chain environment, those things will start to re-converge.

Matthew Pfau
Analyst, William Blair & Co. LLC

Perfect. Well, I think with that, we're about out of time. So, Dominic, really appreciate you being with us here today. There should be a breakout session, and Richardson immediately following this. So, hopefully folks can make it there. All right. Thanks, everyone. Appreciate it.

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

Thank you.