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Samsara, Inc. (IOT)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Michael Chang

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

And welcome to Samsara's Third Quarter Fiscal 2023 Earnings Call. I'm Mike Chang, Samsara's Vice President of Corporate Development and Investor Relations. Joining me today are Samsara 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. The matters we'll discuss today include forward-looking statements. Actual results may differ materially from those contained in the forward-looking statements and are subject to risks and uncertainties described more fully in our SEC filings.

Any forward-looking statements that we make on this call are based on assumptions as of today, December 1, 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, some of our discussions will include our third quarter fiscal 2023 financial results. We'd like to point out that the company reports non-GAAP results in addition to and not as a substitute for or superior to financial measures calculated in accordance with GAAP. All financial figures we'll discuss today are non-GAAP

except for revenues and revenue growth. Reconciliations of GAAP to non-GAAP financial measures are provided in the press release and investor presentation.

We'll make opening remarks, dive into highlights for Q3, and then open up the call for Q&A. With that, I'll hand over the call to Sanjit.

Sanjit Biswas

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

Thanks, Mike, and thank you, everyone, for joining us today. We delivered another quarter of substantial growth at scale with ending ARR of \$724 million, growing 47% year-over-year. We saw a record quarter-over-quarter growth in our \$100,000 plus customers by adding over 120 net new large customers. We now have over 1,100 large customers, including many Fortune 1,000 companies across a wide range of physical operations industries. We also continued to improve our operating leverage. In the last year, we've improved our non-GAAP operating margins from negative 26% to negative 10%, and our adjusted free cash flow margins from negative 38% to negative 9%.

During the quarter, Samsara's Chief Product Officer Jeff Hausman and I met with over 30 customers across North America and Europe. I'm always inspired by the strength and resilience of our customer base. Our customers are the critical infrastructure that power the global economy. And their industries make up over 40% of the world's GDP. The span diverse industries that include food distributors, chemicals companies, energy utilities, freight carriers and municipalities.

Many of them have been around for over half a century, so they're no strangers to the challenging economic cycles. Our customers are essential. They keep the world running and are incredibly resilient. In this macroeconomic uncertainty, our customers are focused on achieving their business goals. They're looking for new ways to maximize every dollar invested into their businesses. Right now, they're focused on asset efficiency, worker availability, and maintaining safe and compliant operations. As a system of record for physical operations, Samsara delivers value across each of these areas by digitizing their day-to-day tasks and workflows. Clear and direct ROI continues to be a priority for physical operations customers. They love investing in technology when it's a clear win.

Let's take a look at a few notable case studies from existing Samsara customers in waste services, critical infrastructure and transportation, who've been able to quantify their ROI since adopting our platform. The results they've shared with us are pretty incredible. A waste transportation and container rental company in Texas adopted Samsara to improve driver safety and safeguard their drivers from false accusations.

With Samsara's Video-based Safety driver coaching, they decreased speeding by 58% in one year. They also helped exonerate drivers from more than 50% of accidents. This application alone equated to an estimated savings of \$500,000 in annual insurance premiums, representing a five-month payback period for their entire multi-product investment. They've also turned their safety culture into a retention multiplier. In this instance, their driver turnover rate dropped to 26%, which is three times lower than the industry average of 80% to 90%.

Retaining skilled workers is a massive cost reduction lever and is especially important given today's labor shortage. Inflationary pressures remain top of mind for our customers. Samsara's platform is a deflationary technology with a proven ability to help customers control costs.

Let's take a look at another example. A leading infrastructure provider serving more than 40 states who subscribes to multiple Samsara products, Vehicle Telematics, Video-based Safety, and Equipment Monitoring.

They saved an estimated \$11 million by using Samsara's Equipment Monitoring to optimize asset usage across their multiple subsidiaries, representing a five-month payback period for their entire multiproduct Samsara investment.

With real time operational data, they've identified inefficiencies in their equipment usage and sold their underutilized equipment, freeing up cash flow to invest in other areas. Optimizing asset utilization is a particularly relevant topic for physical operations customers who now face record wait times for new vehicles and equipment.

Let's turn to how Samsara customers can drive ROI by improving and measuring their sustainability efforts. More and more of our customers are focused on carbon reporting and sustainability. Samsara's connected operations cloud helps them measure and reduce fuel and energy usage, electrify their fleets and monitor carbon emissions. Here, we're looking at a less than truckload carrier based in Illinois with subscriptions to multiple Samsara products that include Telematics, Video-based Safety insights. They were drawn to Samsara because we can provide a complete platform to help them reduce their fuel usage, improve safety, and cut back on paperwork and inefficient processes.

Since deploying our telematics across their entire fleet, they've reported an improvement in fuel efficiency and a 50% decrease in idling, which I think is significant source of fuel waste. This one feature alone translated to approximately 150,000 gallons of fuel saved and over \$500,000 in cost savings per year, representing an eight month payback period for their entire investment in Samsara products.

These case studies represent a snapshot of how Samsara customers are getting clear and fast ROI through our platform. As a system of record for our customers' daily physical operations, the amounts of insights and cost savings our platform can generate is tremendous. Trillions of data points now flow through our platform every year, providing companies with rich insights that can help them control costs, improve safety, and reduce emissions.

What makes our data unique is not the sheer volume alone, it's the breadth and depth of the data. We are able to pull data from all aspects of a company's physical operations, from vehicles, to equipment, to buildings. All of this business critical data exists in an open platform and can be seamlessly integrated with a robust ecosystem of partners, including OEMs, IT systems, insurance providers and vertical specific applications. This quarter, we reached an important milestone. We added our 200th partner integration to our platform. This makes Samsara the largest open ecosystem for physical operations. Similar to leading cloud providers -- leading cloud platforms that exist to deliver actionable insights for IT workers, Samsara allows physical operations leaders to have a single source of truth as their system of record for physical operations.

As the scale of our data compounds, we're able to refine our analytics models to deliver even richer insights and innovation for our customers. This quarter, we launched our Proactive Driver Coaching solution. It's powered by our data asset and our advanced AI capabilities.

With it, customers can take a preventative approach to driver safety. Technology solutions like this help build safe habits on the road, empower drivers to own their coaching experience, and act as a differentiator for companies as they look to attract and retain talent. But we're not only focused on building products, we're also focused on building our company for the long-term. Digitally transforming the world of physical operations isn't going to happen overnight. To be a multi-decade partner for our customers, we must become a self-sustaining company. This was our 10th consecutive quarter of delivering year-over-year improvements to our non-GAAP operating loss in both dollars and margins.

Over that same period, we've scaled ARR over 3x from \$222 million to \$724 million. We're committed to operating efficiently on our path to profitability. Like our customers, we're focused on investing the highest ROI areas of our business. We also continue to invest in our people. Samsara has become a destination of choice for top tier talent. This quarter, we welcomed Steve Pickle as Samsara's first Chief People Officer. Steve joins us from Salesforce, where he oversaw Global People Strategy and Operations and helped double Salesforce's head count. Steve's experience leading and growing large scale transformative teams and cultures will be instrumental as we grow and develop our talent pool.

We benefit from a flexible workplace model at Samsara and have offices in North America, Europe and Asia. By expanding our operations, we leverage the efficiencies of a global talent pool. This allows us to bolster customer support and accelerate region specific go-to-market strategies. It's been an exciting quarter of efficient growth across our product offerings, partnerships, executive leadership and global footprint. We are proud to serve a diverse and resilient range of essential industries. Samsara's customers keep our world running and we are here to help keep them running safely, efficiently and sustainably by streamlining their operations, reducing their cost tax to providing clear and direct ROI.

I'd like to end with the thank you to all Samsarians, as well as our customers, partners and investors for your continued support. While there's much to be proud of today, I know the best is yet to come.

I'll now hand it over to Dominic to go over the financial highlights for the quarter.

Dominic Phillips

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

Thank you, Sanjit. As a reminder, please refer to our shareholder letter, press release and investor presentation at investors.samsara.com for additional information on our Q3 results and financial guidance. Q3 was highlighted by strong top line growth and continued operating efficiency improvements. Our durable and increasingly efficient growth demonstrates the large and growing opportunity for digital transformation across the world of physical operations. While global economic uncertainty persists, we exceeded our expectations for key top line and profitability metrics by providing quick time to value and meaningful ROI savings for our customers.

Q3 ending ARR was \$724 million, growing 47% year-over-year, and Q3 revenue was \$170 million, growing 49% year-over-year. Several factors drove our strong top line performance in Q3. First, we continue to focus on serving large physical operations customers. In Q3, we eclipsed 1,000 large customers and now have 1,113 customers with more than 100,000 of ARR, a record quarterly increase of 124 and a record annual increase of 398, representing 56% year-over-year growth.

Next, Samsara is increasingly utilized as the system of record for physical operations and multiproduct transactions continue to significantly contribute to our top-line growth. In Q3, 6 of our 10 largest transactions included subscriptions to two or more products. More broadly, more than 70% of core customers and more than 90% of large customers subscribed to two or more applications, and more than 50% of large customers subscribed to three or more applications. We're also seeing multiproduct strength at scale. At the end of Q3, our two connected fleet applications, Video-based Safety and Vehicle Telematics each represented more than \$300 million of ARR.

Additionally, our emerging products contributed more than 14% of net new ACV in Q3, including our third largest ever equipment monitoring transaction. And while just over 10% of ARR comes from non-fleet products today, customer adoption is much higher, almost half of multi-product core customers and two-thirds of multiproduct

large customers already subscribe to non-fleet products. This demonstrates our product breadth and opportunity for further expansion as customers bring additional assets onto the Samsara platform.

Lastly, we continue to see strong expansions within our customer base, including upsells of existing products across a broader set of assets and cross-sells of additional products. As a result, 55% of Q3 net new ACV came from existing customers and our dollar-based net retention rate for core customers and large customers remained above our target of 115% and 125% respectively.

Our largest Q3 customer expansion was a \$1 million plus upsell to a Fortune 500 telecommunications provider. With no incumbent solution, the customer selected Samsara to help them reduce fuel costs and maintenance spending, improve safety through speeding reduction and decrease carbon emissions from idling. As a result, we expect the customer will achieve a 3.6x return on investment.

In addition to delivering top line growth, we continue to focus on driving operating efficiency improvements across our business as we scale. As a result, we saw a year-over-year leverage across all major functions. Q3 gross margin was 74%, a year-over-year improvement of 2 percentage points, primarily from product and supply chain optimization and larger scale. Q3 operating margin was negative 10%, an annual improvement of more than 60% or 16 percentage points year-over-year, driven by leverage across all functions. And Q3 adjusted free cash flow margin was negative 9%, an annual improvement of more than 75% or 29 percentage points year-over-year, primarily from continued improvements in the global supply chain and working capital optimizations.

In Q3, adjusted free cash flow margin converged with operating margin and we expect these metrics to be more closely aligned moving forward. We also achieved Rule of 40 in the quarter, a milestone that demonstrates our focus on efficient growth. While we're pleased with this accomplishment in Q3, our goal is to continue making improvements that allow us to achieve Rule of 40 consistently on a quarterly and annual basis.

Okay. Now, turning to guidance. Based on our Q3 results and increased forecast clarity for the last fiscal quarter of the year, we're raising our revenue and profitability guidance both in dollars and margin. For FY 2023, we're raising our revenue guidance to be between \$636 million and \$638 million or between 48% and 49% year-over-year growth. We're improving our full year operating margin guidance to approximately negative 14% and we're raising our EPS guidance to be between negative \$0.16 and \$0.17.

Based on our updated full year FY 2023 guidance, Q4 implied revenue is expected to be between \$170 million and \$172 million or between 35% and 37% year-over-year growth. Q4 operating margin is expected to be approximately negative 16%, and EPS is expected to be between negative \$0.05 and \$0.06.

Looking to next year, based on our current outlook and after analyzing various scenarios, we believe current consensus estimates for high 20s percent FY 2024 revenue growth is appropriately de-risked. On our next earnings call, we will provide more detailed FY 2024 guidance based on our actual Q4 performance and our finalized operating plan. And finally, we also included some additional modeling notes for Q4 and full year FY 2023 in our shareholder letter.

To wrap up, while we're operating in an uncertain macroeconomic environment, we are pleased with our performance year-to-date. We are digitizing the world of physical operations, and our cloud is becoming our customers' system of record. As a result, we remain committed to driving durable growth along with improved operating efficiencies on our path to profitability.

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

QUESTION AND ANSWER SECTION

Michael Chang

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

A

Thank you, Dominic. We'll now open the line up for questions. When it's your turn, please limit questions to one main question and one follow-up question. The first question today comes from Bob Huang at Morgan Stanley, followed by Sterling Auty at MoffettNathanson.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks for taking my question and congratulations on a strong quarter. Maybe if I can just focus a little bit on net new ARR. Last quarter, obviously, you had a much more difficult comp for our net new ARR. Can you talk about if there were any impacts to net new ARR this quarter, such as macro environment, elongated cycles or anything particular that, that could be called out? I'm trying to have a better understanding of what could be the potential run rate of net new ARR going forward?

Dominic Phillips

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

A

Sure. Hey, Bob, it's Dominic. So, I'd say a few things. On the Q2 earnings call, we mentioned that we were seeing some elongation of sales cycles that, that the demand was still very strong, the pipeline was very strong, the conversion in one way were really strong, but we are seeing longer free trial periods, higher levels of approval and really analyzing ROI analysis with much more rigor.

We continue to see a similar amount of sales cycles and similar kind of length in Q3. So, no real change in Q3 versus where we were in Q2. So, that's kind of the point I would make on macro. And the second is really, again, back to our overall sales capacity. And so, obviously, we've really been focused on hiring this year and building more sales capacity that is ramping that we think will provide more productivity as we get into FY 2024, but is not as ramped. It generally takes about four quarters for sales reps to ramp. And so that obviously is also having an impact on our Q3 results.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks. That's very clear. Just for my follow-up on that point, actually, is it fair to say that the elongated sales cycle is not that customers are cancelling their discussions with you, but rather just dragging out the conversation? And if so, is it fair to assume that in the first half next year or second half next year, that you will see a lot of these delayed deals to be completed thus resulting in somewhat of a higher than normal growth rate in your deals or in your net new ARR and such?

Dominic Phillips

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

A

No, again, yeah, the pipeline is strong and the conversion win rates remain at historic levels. So we're not seeing the pipeline reduce, we're not seeing that pipeline not converting, all of that is still happening. It's just taking a little bit longer. And again, I would really categorize that Q3 looked very much like Q2. It did not get worse, but those deals are still closing. And they're not taking much longer to close. We're talking weeks, maybe months and so some of the deals that we thought could have landed in Q2 ultimately closed at the beginning of Q3. So these aren't things that are pushing all the way into next year.

Bob Huang

Analyst, Morgan Stanley & Co. LLC

Okay. Thank you again. Again, congratulations on the quarter.

Q

Operator: Our next question today comes from Sterling Auty MoffettNathanson, followed by Alex Zukin at Wolfe.

Sterling Auty

Analyst, MoffettNathanson LLC

Yeah. Thanks. Hi, guys. So just wondering, when you look at the big customers that you landed in the quarter, what budgets are they funding these projects out of? And the reason why I ask is, wondering how that prioritization will kind of carry through into next year given the tougher macro outlook that we see?

Q

Sanjit Biswas

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

Hey, Sterling. This is Sanjit. So our customers are concentrated within the operations organization, so it could be a VP of operations or a COO, and that's typically the budget that it comes out of. This is the same budget, by the way, that also is related to their accident and insurance payouts, their operating efficiencies, and the capital equipment they're buying. So, for us, there's a direct correlation between adopting our platform and being able to save money and gain ROI in those areas. So it's that same buyer, it's that same kind of budget center.

A

Sterling Auty

Analyst, MoffettNathanson LLC

Excellent. And then just a follow up would be geographically, do you think that there's going to be a different level of impact on demand in light of the macro headwinds?

Q

Dominic Phillips

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

We're not seeing that. We have a focus in North America, Canada, US, Mexico and then Western Europe. This was actually our best international quarter slightly. About 15% of our net new ACV came internationally and it was pretty well spread amongst those different geographies. And so, it's not a tremendously meaningful portion of our overall net new ACV, but it is a good chunk and it is growing quickly. And we're not seeing a lot of change on the international front.

A

Sterling Auty

Analyst, MoffettNathanson LLC

Understood. Thank you.

Q

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

Alex Zukin

Analyst, Wolfe Research LLC

Hey, guys. Can you hear me okay?

Q

Dominic Phillips

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

A

Yes.

Sanjit Biswas

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

Yeah.

Alex Zukin

Analyst, Wolfe Research LLC

Perfect. So I guess maybe just want a, just to better understanding, again, the tone of the macro, Dom, It sounds like the macro, the sales cycle length has been roughly static from your comments previously from Q2 to Q3. But I guess, how is it trending in November versus maybe end of October? Because you did have the largest amount of 100,000 customer adds in a quarter, while others are calling out difficulty with closing larger deals. So it's somewhat counterintuitive. And I'm just – if you could comment on kind of what that trend line is, is it starting to stabilize at a kind of net new level or are you assuming it to get worse?

Dominic Phillips

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

Yeah. Hey, Alex. So again, I think that our business is holding up really well. We're really pleased with the Q3 results. When we look at our customer demand, the overall pipeline, the conversion rates, the win rates, all of those remain strong. Obviously, we're pleased with the Q3 results. We were able to increase our guidance for Q4 and for full year FY 2023. And so we're seeing good strength. We're not seeing it deteriorate. And I think a big reason that we're seeing good momentum is because as we outlined in some of the case studies, we have really fast ROI. Customers are getting paid back within months. And we're – they're using our solution to find real hard ROI savings. They're able to reduce their operational expenses. And then in this environment, that often can get prioritized.

Alex Zukin

Analyst, Wolfe Research LLC

Got it. And then for my second question, it will be a bit of a [ph] smartass (00:24:15) question, but given the fact that you called out consensus estimates as a ruler for next year, kind of being in the right range from a risk or derisk perspective, I guess, I want to question whether the consensus estimates around margins are also the right way to think about de-risking. And then particularly in the context of your comments about the Rule of 40?

Dominic Phillips

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

Yeah, I would just say, look, we want to get through Q4. We want to see what our results are. We want to finalize our FY 2024 operating plan, and then we'll come back in three months and we will give more detailed guidance across top line and margins. But I think you've seen our performance. We improved adjusted free cash flow margin by more than 75% over the last year. This is a really big focus for us. We're really proud of the fact that we got to Rule of 40 in Q3. We need to be able to make improvements to sustain that. But you can expect us to continue to make improvements on that as we go into FY 2024 as well.

Alex Zukin

Analyst, Wolfe Research LLC

Perfect. Congrats, guys.

Dominic Phillips

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

Thank you.

A

Operator: All right. Our next question comes from Matt Pfau at William Blair, followed by Kirk Materne at Evercore.

Matthew Pfau

Analyst, William Blair & Co. LLC

Yeah, great. Thanks for taking my questions, everyone. I appreciate it. Just two, both related, so I'll ask them at the same time. First of all, if we look at the operating efficiencies that you're achieving, maybe you can just help us understand where exactly those are coming from? And specifically, are there any changed hiring plans that are driving those? And then as we look at the margin guidance for the fourth quarter, it implies operating margin worse than Q3. Maybe you can just help us understand what's behind the guidance there for Q4? Thanks.

Q

Dominic Phillips

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

Yeah. Hey, Matt. So, it's Dominic. Again, so on -- when we think about kind of our operating margin improvement for the quarter, obviously, we had some outperformance in revenue which definitely helped us. We had some savings around gross margin came in a little bit better than expected. And then within our operating expenses, really across the board, we're focused on just overall operating efficiency improvements, but also some non-personnel related spend. So, can we get -- can we find software spend that we're not utilizing? Can we think about our unused real estate? Can we think about being more thrifty around things like T&E and events? And so those are all areas of focus and projects that we've built to drive some of the operating efficiency improvements that you've seen.

A

In terms of the Q4 guide, I would really just focus investors on the full year guide versus the kind of seasonality between Q3 and Q4. And so, overall operating margin for the year was negative 18% previously, now it's negative 14%. We are basically passing through the \$14 million [indiscernible] (00:27:19) Q3, plus another \$6 million for Q4. So I would -- I would really focus investors on the full FY 2024 guide --for 2023 guidance versus the kind of Q3 versus Q4 seasonality.

Matthew Pfau

Analyst, William Blair & Co. LLC

Perfect. Appreciate it.

Q

Operator: Our next question comes from Kirk Materne at Evercore, followed by Derrick Wood at Cowen.

Peter Burkly

Analyst, Evercore Group LLC

Hi, guys. This is actually Peter Burkly on for Kirk. Appreciate taking the questions here. So, just to start, you guys are delivering pretty strong NRR rate. I'm just curious how you kind of characterize the balance between customers starting to go deeper with some of your more ancillary products versus just as these customers grow and they're adding new vehicles, adding the safety and telematics solutions there? I mean, I would assume a customer adds new vehicles and if they're using it for safety, that that's just automatic addition right there, just kind of naturally, but just curious kind of how much those ancillary products are driving that, if at all?

Q

Sanjit Biswas

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

A

This is Sanjit, by the way. So it's really a mix. We see customers adding additional assets to the platform as they continue to expand their operations and additional applications. So, quite often will land with two or more applications. But in many cases, some of these customers, if they're larger, especially, they have a single project that they start with, might be Telematics or Video-based Safety or maybe even Equipment Monitoring. And then from there, once they get familiar with the platform, they see how much value in ROI it drives. They want to expand us kind of across their entire operation. So, I would say it's a pretty healthy mix between those two cases of expanding the number of seats or assets on the platform, as well as expanding the applications with us.

Dominic Phillips

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

A

And maybe I'll just add a little more. Just our overall go to market motion in a way that we kind of incentivize the sales reps is really just commission rate tied to overall net new ACV. So, whether that's a new logo or an expansion to an existing customer, they're incentivized to go out and get as much net new ACV as possible. And we're seeing really good balance right now as we as we mentioned, 55% of our net new ACV in Q3 were tied to expansions to existing customers. And so, really good balance between kind of net new ACV coming from new logos, as well as existing customers.

Peter Burkly

Analyst, Evercore Group LLC

Q

Awesome. That's really helpful color. Maybe just a quick follow-up if I could. International still represents a pretty nice area for potential expansion when taking sort of a longer term view. Just curious, if you're looking at Western Europe or elsewhere, what are the key barriers to adoption in those other regions versus what you're seeing domestically, if any? Is it just a matter of getting more reps on the ground over there or just curious about the dynamics there?

Sanjit Biswas

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

A

So, the used cases are remarkably similar to what we have here in the US and in North America. So in Western Europe, the customers are still focused on safety, efficiency and sustainability. There are some region-specific features, some language changes that we have to make. There's some different regulatory compliance domains for our workflows. But I would say, 80%, 85% of the product is very similar. And now we're beginning that invest of getting more quarter carrying capacity on the ground and also increasing our base of reference customers. So, I think with time, you'll see us grow into that Tam, but we're kind of taking it slow and we're also focusing on our efficiency as we grow.

Peter Burkly

Analyst, Evercore Group LLC

Q

Great. Thank you both for the color.

Operator: Our next question comes from Derrick Wood at Cowen, followed up by Matt Swanson at RBC.

Derrick Wood

Analyst, Cowen and Company

Q

Great. Thanks, guys, and congrats on a solid quarter. It does feel like the broader supply chain conditions have eased a bit. It sounds like you guys are seeing that with your operations as well. Just curious, as companies don't have to deal with the supply chain disruptions seen over the last couple of years, and maybe as they're kind of recouping some better cash flow and market visibility, how is that impacting kind of customer conversations and willingness to do more digital transformation kind of initiatives?

Sanjit Biswas

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

A

So, the customer view on this is, supply chain has been an area of focus, mainly because they're trying to get better visibility. But in terms of the value that our platform offers, a lot of it is tied to labor. So if you think about these industries, whether it's construction or oil and gas or field services, they're people intensive as much as they are asset intensive. And what we're able to do is help them go find 10%, 15% operating efficiencies out in the field. We're able to help them save money on fuel, which is when they're operating those assets. And then also around things like carbon reporting. So those are all unrelated to supply chain constraints. So, I would say, there's multiple sources of value on our platform, while getting better asset utilization has been one of the many pillars or prongs in terms of the Samsara platform. It's not the only one. So, we still have a very broad-based appeal and we're able to drive very fast time to ROIs as we talked about earlier, across more than just visibility of supply chain.

Derrick Wood

Analyst, Cowen and Company

Q

Great. And Dom, maybe one for you. The -- I mean, really great to see that the net revenue retention rate on 100,000 customers is stable over 125%. I mean, anything -- how do you feel about the durability of this number? Anything to be aware of, of tougher comps or given the macro, do you feel that this is a pretty good sustainable level from here going forward?

Dominic Phillips

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

A

We do, yeah, we feel confident in being over 115 for core customers and 125 plus for our large customers. And again, we were just seeing a really good balance of [indiscernible] (00:32:57) coming from new logos, but also more than half of it again in Q3 coming from our existing customers. And -- and we're seeing a lot of the large customers continue to come back. And once they've realized ROI on one used case or one product, continue to add more products and used cases and find additional ways to save money. And so more and more of our business is coming from 100,000 plus customers, 47% of our overall ARR is driven from that customer cohort now. And you can see how that's increased over the last couple of years?

Derrick Wood

Analyst, Cowen and Company

Q

Right. Well done. Thanks.

Operator: Our last question today comes from Matt Swanson at RBC.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

Yeah. Thanks, guys. This is obviously Matt Swanson on for Matt Hedberg. I was just wondering if you could kind of net-net the macro impact for us. We've talked a lot about ROI in the prepared remarks. Obviously, the results

were showing a lot of durability. But I mean, would you describe parts of this macro as a tailwind, I guess? And then how are you thinking about the macro in that Q4 guidance, but also in that early caller for 2024?

Dominic Phillips

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

A

I would just say, again, we're really pleased with the results for Q3 and the momentum in the business right now that customer demand has remained strong. Again, our pipeline or conversion and win rates have been really strong. And so, we're very pleased with the results and obviously we reflected that in Q4 as we raised our guidance for that quarter and for full year. We do recognize that there is a lot of macro uncertainty and so we want to make sure that we are given a little bit of color in the next year, based on how we're thinking about things, as well as going through some different scenario analysis and we feel good with where the kind of consensus FY 2024 revenue growth rates are right now in the high 20s percent that we forget that based on what we're seeing right now.

Sanjit Biswas

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

A

And if I can just add one or two things. While we are seeing customers very much focused on cost reductions and efficiency, in the world of operations, these are evergreen problems. They're always trying to find ways to be safer, reduce their costs of insurance. They're trying to find ways to be more efficient, whether that's in terms of how they serve their customers or how much they spend on fuel, and then same thing around sustainability. So, while there is a lot that's front of mind because of the current macro with our customers, I've just been spending a lot of time out in the field spending time with these customers. They're saying these are fundamental challenges in operations and that's why they're digitizing. They're trying to move from pen and paper to a more modern platform to get better visibility into these kinds of problems.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

That's super helpful. And then it was great to see the success that you had upmarket for both the 100,000 customers as well as the growing percentage of ARR. Is there any difference, I guess, on kind of the other side of the market in terms of macro impact or anything else for the smaller deal sizes as you [ph] got out (00:35:58)?

Dominic Phillips

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

A

No. I think, again, the same problems that the large customers are grappling with, same with kind of our mid-market customers as well. They're looking for ways to reduce cost, lower fuel costs or insurance premiums or reduce accidents, meet – increasingly meet their sustainability goals. I'd point you to just the overall ARR mix coming from 100,000 plus customers continues to move up, but it's moving up kind of like a percentage point every quarter, which means that the customers paying below 100,000 are also growing really, really quickly and driving a lot of our overall growth. We're just seeing a little bit more growth from the large customer segment.

Matthew Swanson

Analyst, RBC Capital Markets LLC

Q

All right. Appreciate the color. Congrats on the quarter.

Dominic Phillips

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

A

Thank you.

Michael Chang

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

This concludes the question-and-answer portion. Thank you all for attending our Q3 fiscal year 2023 earnings call. If you have any follow-up questions, you can e-mail us at ir@samsara.com. Thanks again. Bye everyone.

Operator: Goodbye.

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