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Samsara, Inc. (IOT)

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CORPORATE PARTICIPANTS

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

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

All right. Well, thanks, everybody for joining us. Getting late in the – it's – it is the last presentation.

Unverified Participant

Okay.

Unverified Participant

But...

Unverified Participant

Thanks for attending.

Unverified Participant

Yeah. I think – yeah. I think – I think Mike and Dom, we'd like to hear you and I'll save the best for last, right. But, yeah, I mean, you guys are one of the most requested here at the conference. And appreciate you guys making the trip out. Dom, it's great to have you. Of course, Mike, as well.

Unverified Participant

Yeah.

Unverified Participant

There's been a lot of hype around you guys, especially you're one of the few companies that are out there actually, like showing growth sustainability, right. Growth sustainability and pretty impressive margin accretion. So, good to see you guys.

QUESTION AND ANSWER SECTION

Q

But one of the questions we keep getting is around this kind of growth sustainability and sort of what's driving that. Walk us through kind of the puts and takes around that that's causing the difference that other software companies are struggling?

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

A

Yeah. I think I would call out a few different things. The first is the business model is a little bit different than some of the newer software companies. This is a traditional subscription-based model. We price the number of physical operations assets that customers have. But because it's a subscription model and we saw three to five-year licenses, we have a lot of visibility and predictability into what future revenue will be. And so we can set expectations with a lot of confidence.

The second thing I'd call out is the buyer of Samsara is different than some of the other software businesses. We sell into the operations budget, the line of business. And for our customers, that tends to be a very large budget and less discretionary than it is within the world of IT or selling it to the CIO. In fact, we did a recent survey, and two out of three operations leaders that we surveyed said that they were actually going to keep their budgets flat or increase them for their technology spend. And I think that looks a little bit different over in the CIO world.

And the third one, and maybe the most important is that customers deploy Samsara for real hard ROI savings. So, if you use Samsara, customers will save money on things like the amount of money they spend on fuel and maintenance, they'll get to fewer accidents, they'll lower their insurance premiums, they'll increasingly meet their sustainability goals. But there's real hard ROI and the payback period of their Samsara investment tend to be very quick within months. So, I think all three of those have really allowed us to drive sustainable high growth.

Q

So, you hit upon on the ROI side here already, but how do we think about underpenetrated market or greenfield opportunity versus just there's a ton of competitors out there, they're just not addressing this properly?

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

A

Yeah. So, we sell multiple products all on one platform. In fact, we have three different product categories that are all growing more – that are all more than $100 million of ARR, each of them growing more than 30% year-over-year. And the dynamics of each of those different product categories are a little bit different. So, our largest product category is video-based safety, AI dash cameras to improve driver behavior and safety and reduce accidents. That's a market that's very much a greenfield market. Less than 5% of commercial vehicles in the

United States have a dash cam and are running a safety program. And so, often we are replacing the cost of accidents and insurance with the Samsara investment and the customers are able to save even more money.

Our second largest product is telematics. That market is – in some shape or form has been around for decades. 40% to 50% of commercial vehicles in the US have a telematics solution. That tends to be much more of a replacement cycle. Connected equipment tends to be more greenfield. And so, overall, these customers are – have, again, been very underserved by technology and they're really in the early innings of adopting technology to improve their businesses. Some of the products are a little bit more of a replacement, but the majority of them are putting technology in where it didn't exist before.

Q

And a big debate here we get with investors is competitive differentiation, especially when you want to start talking about the enterprise customers out there. And you guys actually have multiple used cases and, obviously, you just had your user conference and released a couple of new products, right? So, what differentiates Samsara and why is this resonating with the enterprise market, notably where incumbents have been in the space longer, potentially have more connected assets? How is this contributing to have sustainable growth here?

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

A

Yeah. So we – I think about our competitive landscape on four different vectors. We sell into many different customer segments. So we sell mid-market and enterprise. We have multiple products, as I said, all on one platform. We sell into many different geographies. We're in US, Canada, Mexico, Western Europe, and we sell across many different end markets.

Customers in like field services and construction, utilities, transportation that make up 40% of global GDP. Across each of those different vectors, we see a different set of competitors, point solutions or greenfield opportunities. I think the – some of the biggest reasons that we're winning is because we are collecting a tremendous amount of data, more than 6 billion data points every year. And because of the breadth and the amount of the data that we're bringing in, we're able to provide unique insights across a customer's broad set of operations in a way that is just not able to be replicated by other competitors.

We are really having a lot of traction in enterprise. 50% of our ARR now comes from large customers. And we've made a lot of investments in both go-to market and R&D to address that customer base, and I think that really differentiates us.

And the third, and maybe simply, is just it's really easy to use. You can – customers can get up and running with Samsara within minutes. You can deploy device, turn it on, connect your asset to the cloud, start collecting data and really make changes in the way that you run your business, you don't need to hire a big system integrator to come in and redesign all your business processes to really drive value. You can get up and running and implement it very quickly.

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

A

Yeah. I mean, we had our customer conference in June and we spoke to a lot of [ph] different (06:35) customers. I would say, one of the key points of feedback for them [ph] on what they're (06:38) looking for is actually a single pane of glass. Like, hey, we have six different or eight different screens trying to monitor our business, we want a single pane of glass. And I think to your question like what's – [ph] that's raising their (06:47) largest customers. What's very important that we do is like we have a system of record that [ph] corroborates (06:51) that no one else is doing. So, like as Dominic mentioned earlier, a lot different competitors on different like silos. No one is taking this universal system record [ph] path that we're taking (06:58).

Q

Yeah. So maybe getting into one of those silos. I think a lot of excitement around this. I want to say like not asleep, but equipment monitoring kind of use case, right? Where you're starting to see I think that's the fastest part of your business today, if I remember right. Can you speak to that cross-sell opportunity and how that's acting as either a spear potentially with some newer customers or newer verticals? And how you – how that might change your go-to market strategy.

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

A

Yeah. So, our beachhead into these physical operations customers continues to be the vehicle-based applications, both safety and telematics. We now have the third product [ph] category that (07:39) is tied to non-vehicle assets, field assets, things like a trailer, a dumpster, a compressor, a generator, a heavy-duty construction equipment like a crane. And across all of those different types of assets customers, they want visibility into where these things are and they want to understand how they're being utilized. And what's interesting is that there's the – because of the diversity of these non-vehicle assets is so great, it tends to be a pull from customers. So we will land with our standard kind of telematics and safety-related products, and then customers will identify other assets that they would like to connect and get visibility into the Samsara cloud, and they'll come up with use cases [ph] in processing. (08:24) So, that product category, as you said, is – it's now over a $100 million of ARR, growing north of 30%. It's our fastest growing product category and it tends to be much more of an expansion motion.

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

A

And I think that's part of the [indiscernible] (08:36). So when I think about the software landscape, I can't think of many software companies who can provide like real hard, tangible ROI [ph] we can (08:41) that they can actually measure. And so when customers deploy our product telematics, for example, across their fleet and they're like, wow, I'm getting all this valuable benefit from deploying across vehicles, they're like, wait, [ph] we have all these other (08:53) non-vehicle things that can just [indiscernible] (08:54) so that's how we get the natural pull. It's because they actually recognize that hard ROI and they just want more of it.

Q

Yeah. And so maybe to your point, Mike.

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

A

Yeah.

Q

You're bringing up ROI here. And I think whenever we have an investor conversation, they're like what's going on here? And it's just like these guys provide such a big ROI across these use cases, to your point, I think a couple of months payback period in some of your customers. Is there a big ROI difference that you can provide between telematics versus video safety versus the kind of equipment monitoring category? And it does tend to be on occasion different buyers. So, how do you have that initial buyer kind of champion for you, for that other person in the organization?

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

A

So, for these three main product categories, it does tend to be the same buyer. It tends to be an operations leader that is responsible for all the physical operations. That said, all the frontline workers and all of the supplies required to run these assets. So, fuel and insurance and maintenance and all of these things. And so, it's very natural for us to sell to the same buyer. And that's frankly what often drives our product road map. It's us going out and talking to customers, getting feedback on what else they want to see us build, and then executing on that versus us showing them what they should ultimately deploy. It often comes from customers.

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

A

And I think on the other point, we've been talking a lot about this core ROI concept, but [indiscernible] (10:19) ROI that any company gets across any industry, I think what's been most exciting for me is when I go to the customer conference, like hearing how other people are using it and getting extensions, kind of expansion ROI. And by that, I mean, like expanding and attaching to different systems. So, like we talked about like [ph] talk to our (10:34) customer and they attach it to their tax system, for example, and now it's sort of being taxed at the corporate rate that you get taxed by where work gets done. And they have to optimize taxes. And I think that customers did like $10 million per year. They have other customers doing different things. But I think that expansion, that integration to other systems is pretty powerful.

Q

Yeah. I think in this kind of age of optimization across environment, like, that's huge, right?

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

A

Yeah. And for these customers, I know it sounds kind of crazy, but one of the biggest ROI benefits is just knowing where these assets are. I mean, they spend so much money on these assets and they have such broad operations that often they have to buy new assets or they have to rent equipment to get the work done, because they don't actually know where these things are. So, visibility and understanding the utilization of these assets is a huge ROI driver.

Q

Yeah. I think I'm going to have to attach it to my [indiscernible] (11:20).

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

A

You're right.

Q

Maybe just keeping on the kind of – we talked about some of these newer products out of the user conference and connected forums, mobile experience. And can you talk to that opportunity about that can provide to you in terms of that value creation that you can have with customer?

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

A

Yeah. So, I think, the majority of our products today address physical operations assets, whether that's a vehicle or, again, something on the field or an equipment yard or factory. And now, we are extending into improving the worker experience. So all of the frontline workers that are operating these assets are actually getting the work done. How can we extend Samsara into improving their work-life into digitizing documents, creating forums and inspections and work orders, routing that work within the organization and being able to do all of that from the same Samsara application. And we've done components of this around vehicles like vehicle inspections and capturing documents. And now, we're extending it to other industries and opportunities as well. So now, you'll see us move beyond assets into workers.

Q

Do you want to talk about MEM?

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

A

Yeah. I mean, MEM is a great product, too, Mobile Experience Management, essentially allows us to really get more control of the device that these workers are using. When they're on the field, they typically have to have a mobile device. What happens is these workers sometimes may not understand this app and so MEM allows someone from the back office to basically remote in and teach them how to use the app and basically get workflows done. They also put limits around how they use the device. So for example, someone is driving, it may limit the number of applications they can use it. They're not like watching Netflix while they're driving or YouTube. They really focus on the compliance app that are required to do their job.

Q

Got it. Look, I know you said you use those kind of telematics fleet. Video safety is kind of that spirit of that organization. And these are add-ons that we're talking about to create for their value for the customer. But is there ever a point where you could see that the non-fleet stuff could actually become that spear into the organization? Is there a line of sight to that?

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

A

It happens today. It's just rare. And I think that as these products grow and scale over time, maybe those opportunities open up more and more. But the kind of the commonality across all of these industries and customers is that they tend to have vehicles is like the backbone of their operations, transporting goods, transporting people out in the field, getting field services related work done. And so that is likely going to continue to be our entry into an organization.

And then, again, because of the diversity of all of these other types of work and assets that likely continues to be a pool. But there are many examples of customers landing with like, for example, equipment monitoring first and then expanding into the vehicle-based applications after. It's just likely to be more aware.

Q

Got it. And AI has always been a thing for you guys. It wasn't, all of a sudden in November of last year, it's AIs for you. It's always been part of that story, right, and not just the story, the reality here.

So my question really is about how are you first using AI internally? Just remind us how you're using it internally? Are there going to be new use cases for you internally with some of the developments that you're seeing helping, especially as you – you as a CFO on sort of cost optimizing the business...

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

A

Yeah.

Q

...or doing stuff better internally. And then how should we think about that external use case as any new products that could be [ph] use case on the run (14:56)?

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

A

So for us, we view AI as a tool to allow us to provide more business value to customers. Customers come to us because they want ROI, they want real business value. And if we can use AI to provide that to them, that's a great outcome for us and for them. We've been investing in AI technologies for the last four to five years. We've got a large data science team internally and we've deployed it into many of our products, including our largest video-based safety. If you think about forward collision warning and lane departure and distracted driving, all of that is us taking the video data that we're capturing and training models and deploying them at the edge and alerting drivers and the safety [ph] manager. (15:42)

So, we've been doing this now at scale for many years. We'll continue to make that a big priority of investment. And I think some of the newer generative AI-type technologies are a component of our overall AI strategy. I think down the road, it could be more beneficial product opportunities for customers. I think more near-term, it can help us be more productive within R&D and even in areas like IT and business systems to develop code and be more productive and get to market faster. But again, to your point, it has been a big part of our DNA and we'll continue to do.

Q

Got it. Makes sense. And I know, you as a CFO, we got to start asking you some financial questions, right. And look, you're – one of the few companies that we cover, let alone, some of my [ph] software peers (16:32) cover that maintains net retention rates in this environment, when you see most falling – you were actually able to keep the sales and marketing spend come down a little bit here and overall spending and yet your net ARR was a new record, right? So, kudos to you on that, but big thing that you and I always talk about is productivity, productivity per rep. So, how do you think about it? How do you think about – how much more leverage you can get from that sales and marketing line?

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

A

Yeah. I mean, capacity – sales rep capacity is a key input into our future growth. Sales rep – new hires take roughly four quarters to ramp. They can take longer in some of the emerging products and geographies. But I am constantly looking at things like net new ACV or productivity per ramp sales rep, and we're using that as a meter to determine if we should be hiring faster or we should be hiring slower. The balance is not having productivity go up so high that we should be hiring faster to capture more growth quickly and not having it drop too much such that we are cutting accounts in territories and opportunities too fast such that it could create risk within the sales organization. And so, really finding that balance is something that we strive to do, and we use that to again [ph] gate (17:57) our investment profile going forward.

But we feel like we're at the right balance now. We are seeing good productivity. We are seeing a lot of good customer demand for all of the reasons that we talked about in the first question around the operations budget. But it's something that we continue to monitor and we will use to kind of guide our investment profile.

Q

Got it. [ph] Before opening up with (18:19) roughly six or so minutes to go, one question I had for you was around gross margin, because – let's face it, you have this nice long-term model and have laid that out and you're already fair at 75% or so. Walk us through the puts and takes of that? And if there is a much of a difference on gross margin between the sort of fleet-focused offerings, the telematics offerings versus essentially the non-telematics?

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

A

I think that we are not likely to see a lot of additional leverage out of gross margin, especially while we're growing very quickly. Our long-term model was 74% to 76%. We did 75% in Q2. There were some timing benefits there. We expect to be in the kind of low-70s for the year as we laid out in our last guidance.

I think there's some additional cost optimizations. I think there's some pricing strategy that we can implement to potentially push that a little bit higher. But the majority of the leverage in this business going from kind of free cash flow positive today to where we expect in the long-term model will come below the gross margin line item. And the largest expense, as we just discussed for us, is sales and marketing. And there's a lot of additional leverage opportunities as we scale this business to make improvements there and show the more bottom line leverage.

Q

Got it. Any questions from the audience, if you want? There's one in back.

Q

[indiscernible] (19:51-20:01)

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

A

Yeah. It's managing assets at scale. So if you have thousands or tens of thousands of assets, all kinds of different types of assets, some of them are powered, and so understanding the kind of the utilization of some of these assets. [ph] A crane of a forklift there is a refer (20:19) on a trailer. And so, there's much more than just an unpowered asset understanding of the location. There's some telematics and utilizations components to this . But really it's being able to deploy this across thousands or tens of thousands of assets at scale and having real-time visibility in where these things are is the value that we're providing to customers.

Q

[audio gap] (20:47-21:18)

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

A

Yeah. We haven't seen any legislative tailwinds in video-based safety and it's our largest product. It wasn't even the first product of the company and it's growing quite quickly. The legislative push within telematics was really just focused on the trucking industry, around like long-haul trucking, which is a kind of a fraction of our overall customer base. So, the biggest driver of growth for the business will be the ROI that we're providing the customers, the cost savings, the safety benefits, the sustainability tracking. Those are much larger drivers of growth than being pushed by compliance and legislation.

A

Yeah. I think on the safety side, it is really – it's getting increasingly important, though, because the payouts are getting harder. These lawsuits are getting so big. These insurance providers are increasing the rates. So, I think either way, for insurance, you're going to get whether you self-insure, whether you pay insurance, you're getting pressured, the ROI is increasing. And then I also think from [ph] just peers (22:20) like – there's – I think investors and employees have more visibility into the safety scores like deaths or near deaths type of thing for businesses. And so, there's more – they require more transparency around that. So because they require transparency, they want to prove that metric.

Q

[audio gap] (22:38-22:44)

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

A

Absolutely. So, I would say for the midmarket customers that are using external insurance providers, we have a number of integrations with them. They often serve as referral partners for us, and we have a number of arrangements where if a customer uses Samsara and we provide the data to the insurance provider, they can better price that risk, and we'll provide a subsidy to their customers. A lot of the larger customers are self-insuring, and so are finding value just in the reduction in accident payouts.

Q

So, in fact, minute or two left here. Look, you're not going to guide here for next year. I mean, I'd welcome it, and we have, but especially with 7 minutes to the market close, too. But give us – walk us through the puts and takes as you're starting to think about calendar 2024, whether internal or actually some top line perspective if there's anything to think about. Obviously, you mentioned proactively the extra week in Q4 and how to think about that for calendar 2024, as well as the impact of what was a former colleague is now a colleague [indiscernible] (23:53).

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

A

Yeah. So, we're still – we just finished the kind of the midpoint of FY 2024, calendar year of 2023 and so we've got a lot of execution to do for the back half of this year that is really going to drive what our plan will be for next year. We're in the middle of that process right now.

And then there's a lot of external factors that I think we're closely monitoring. A lot of potential macro headwinds and understanding of what happens to the economy and therefore, customer demand. So we're really going to watch our internal performance and execution over the back half of the year and some of these external factors to really figure out what we're going to do and how we're going to plan for next year.

Q

Got it. Maybe sneak in one last one, actually. You guys are about to be free cash flow positive essentially from here forward, right? $800 million cash on hand. How should we be thinking about capital usage from here?

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

A

Yeah. So, we did get to free cash flow positive in the quarter and are in a position now to be able to deliver that going forward. I think no real near-term things to call it, reinvesting back into the business, driving sustainable high levels of growth, and making sure that we're in a position to never need to raise external capital again to run the business. But no near-term significant uses of capital in terms of buybacks or dividends or large-scale M&A on the horizon.

Unverified Participant

Well, guys, thank you for your time and for making the trip. Thanks, everybody, for joining us, and enjoy the little bit remaining of the conference. Thanks, guys.

Dominic Phillips

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

Okay. Thank you.

Michael Chang

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

Appreciate it.