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Samsara, Inc. (IOT)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...about \$45,000 a week or more than \$2 million on an annualized basis. The second worker experience product we launched was Connected Training. Connected Training helps our customers reduce risk by giving them a way to train workers anytime and anywhere. It does this by giving customers remote access to courses on the Samsara mobile app. Now our customers can build customized learning itineraries to address each worker's largest risk areas. They can also streamline all their training requirements across the organization. Customers who use Connected Training are already seeing significant benefits. For example, Emery Sapp & Sons, a leading heavy civil construction contractor in the Midwest, saw a 40% reduction in safety events with Connected Training.

After launching new products, we continue to run our customer feedback loop to make our products better and more impactful for our customers. At Beyond, we announced new features and partnerships for our platform. To help our customers improve – to help improve our customer safety programs, we launched new AI detections and shared updates to Smart Trailers. To help our customers improve the sustainability of their operations, we launched Charge Insights. This is part of our broader EV management offering. We also announced a new partnership with FirstNet, built with AT&T, the only nationwide communications network created with and for public safety.

Samsara is now FirstNet-trusted, so public safety customers can use Samsara in emergency response situations. It was another successful Beyond and I'm happy to share we're hosting the next event next summer in San Diego. We look forward to bringing together even more of our customers, partners and leaders across the world of physical operations. Digitizing physical operations will be a multi-decade journey. As we build for the long-term, we continue to invest in our leadership and our culture. First, I'm excited to welcome Alyssa Henry to our board of directors. Alyssa brings over 25 years of experience as a product and technical leader at some of the world's most influential technology companies. This includes her role as CEO of Square at Block, and senior leadership positions at Amazon and Microsoft. She has a proven track record of driving innovation and significant growth in the tech sector.

Second, we are also happy to welcome Megan Isenberg as our Chief Marketing Officer. Megan is joining us from Lacework, where she was their CMO through their recent acquisition by Fortinet. Before that, she was the CMO at both TripActions and MongoDB. She has great experience engaging customers, driving growth and building brands at many successful companies. We are thrilled to have Alyssa and Megan join our team.

And lastly, Samsara continues to be a destination for some of the world's top talent. This is important as we scale to meet customer demand. This quarter, Samsara was recognized by Great Place To Work for development, well-being and women. We are proud of the impact we're making on our customers. We are operating at scale with our customers, generating more than 10 trillion data points, 85 billion API calls, and 70 billion miles driven across our platform annually. Our growing data asset drives more AI-powered insights so our customers can get clear and fast ROI. Every year, the impact we make with our customers continues to compound. We're excited for the decades' long opportunity ahead. Thank you to our customers, partners, investors and Samsarians across the globe for joining us on this journey.

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

Dominic Phillips

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

Thank you, Sanjit. Q2 was another quarter of sustained high growth at scale and continued operating leverage. In particular, the quarter was highlighted by maintaining the same year-over-year revenue growth rate for the third consecutive quarter at a larger scale, surpassing 2,000 large customers, including adding a quarterly record number of \$1 million plus ARR customers, adding approximately \$1 million of Asset Tags net new ACV in our first quarter of selling and achieving a quarterly record operating margin, while sustaining a quarterly record gross margin. Q2 ending ARR was \$1.264 billion, growing 36% year over year. Within this, we added \$88 million of net new ARR, representing 20% year-over-year growth. And Q2 revenue was \$300 million, growing 37% year-over-year, which is the same year-over-year growth rate for the third consecutive quarter at a larger scale.

Several factors drove our strong top line performance in Q2. First, we continue to focus on serving large enterprise customers to drive durable and efficient growth at scale. We now have 2,133 \$100,000-plus ARR customers, representing 41% year-over-year growth, including a quarterly increase of 169, which is our second highest quarter ever. And within that, we also added a quarterly record 14 \$1 million plus ARR customers in the quarter. In addition to adding more large customers, we also grew our average ARR per large customer to \$318,000, up from \$306,000 one year ago. The combination of more large customers added and a higher average ARR per large customer increased our ARR mix for \$100,000 plus ARR customers to 54% in Q2, up from 50% one year ago and 46% two years ago.

Second, our customers increasingly utilize Samsara as a system of record for physical operations by subscribing to multiple applications all on one unified platform. 94% of our \$100,000 plus ARR customers subscribe to multiple products and 59% subscribe to three or more. We're also seeing multiproduct adoption at scale. Our two vehicle-based applications, video-based safety and vehicle telematics, each represent more than \$500 million of ARR, while equipment monitoring and other emerging products combined for more than \$150 million of ARR. In addition to large scale, each of these three product categories continued to grow more than 30% year-over-year. We also saw a number of large multiproduct transactions in Q2.

9 of the top 10 new logos in Q2 included two or more products and six included three or more. Notably, one of our largest Q2 new logos, Cassens Transport Company, one of the largest auto haulers in the US, landed with four different products. In addition to licensing our two vehicle-based applications, Cassens also purchased equipment monitoring and one of our newer software-only SKUs Connected Training in their initial transaction. Additionally, all of our top 10 expansions included two or more products and 5 included three or more. This expansion strength allowed us to achieve our target dollar-based net retention rate of 115% and 120% for core and large customers respectively.

And third, we demonstrated strong execution across several frontier markets. 16% of net new ACV came from international geographies in Q2, driven by strength in Europe, which had its fourth consecutive quarter of accelerating year-over-year ARR growth at a larger scale. Construction drove the highest net new ACV mix of all industries for the fourth consecutive quarter and field services had the second highest mix for the second consecutive quarter. In total, 87% of Q2 net new ACV came from non-transportation verticals, an increase from 83% in Q2 last year and lastly, we also saw strength in emerging products.

We achieved roughly \$1 million of Asset Tags' net new ACV in our first quarter of selling, including a more than \$300,000 expansion with a top 100 customer in the construction industry. We also added roughly \$1 million of

connected workflows net new ACV in Q2, including four separate \$100,000-plus ARR transactions. And we signed an approximately \$250,000 connected training expansion in our first quarter of selling the product with a top 30 customer in the logistics industry. In addition to driving strong top line growth, we continued to deliver operating leverage across our business as we scale. Non-GAAP gross margin was 77% in Q2, which was tied for a quarterly record. Non-GAAP operating margin was a quarterly record 6% or 9 percentage points higher year-over-year and adjusted free cash flow margin was 4% in what is our seasonally weakest free cash flow quarter.

Okay. Now turning to guidance. We're raising our guidance across all key metrics because of our Q2 performance and outlook for the rest of FY 2025. For Q3, we expect total revenue to be between \$309 million and \$311 million, representing year-over-year growth between 30% and 31%. Non-GAAP operating margin to be approximately 4% and non-GAAP EPS to be between \$0.03 and \$0.04. For full year FY 2025, we expect revenue to be between \$1.224 billion and \$1.228 billion, representing year-over-year adjusted revenue growth between 33% and 34%, non-GAAP operating margin to be approximately 5%, and non-GAAP EPS to be between \$0.16 and \$0.18.

And finally, please see additional modeling notes in our Shareholder Letter. So, to wrap up, we are pleased with our first half performance and our improved outlook for FY 2025. In Q2, we sustained our revenue growth rate at a larger scale, while also delivering more operating leverage. And looking forward, we believe we're well positioned to continue delivering durable and efficient growth because we're digitizing the world of physical operations, which is a very large and underserved market opportunity and that's driving strong customer demand. Our products offer real ROI and a fast payback period to our customers and we're targeting a very different operations budget. We're proud to partner with our customers and are excited to continue helping them operate more safely, efficiently and sustainably.

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

QUESTION AND ANSWER SECTION

Michael Chang

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

A

Thanks, Dominic. We will now open the line for questions. When it's your turn, please limit your question to one main question and one follow-up question. The first question today comes from Kash Rangan with Goldman Sachs, followed by Alex Zukin with Wolfe Research.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Thank you, guys. What a phenomenal quarter. Looks like the total new business seems to have picked up if I can tell from the net new ACV growth rate you've experienced in the quarter and also the \$1 million ACV contracts [indiscernible] (00:10:39) in the quarter. Can you talk about any potential changes to the buying environment you've noticed in the past month or so, but also Sanjit, curious to get your take on the impact of the tremendous new product innovation that you've [indiscernible] (00:10:51). How could that translate into better pricing power for the company and also better retention rates as your products like the workflow, which we had a lot of fun talking about at our conference, as those things start to take hold, how do you envision the stickiness, renewal and [indiscernible] (00:11:06) the company? Thank you so much.

Sanjit Biswas

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

A

Sure. Kash, this is Sanjit. So, first of all, I think the adoption of the platform has been really strong. This really is a continued pattern we've seen for a couple of quarters now. So, I wouldn't say that this was especially different in terms of buying environment other than customers are really seeing clear and fast ROI with the platform and they want to do more. So, not just safety in telematics, but monitor equipment, track those assets, like you said, connect their workflows into the system. So, the impact of new products, I think it strengthens our platform story for our customer. They're already in the system. They have lots of front line and back office employees using Samsara and ultimately that helps us deliver more value for them. In terms of pricing power, I think really it's about delivering great value for our customers. We're seeing strong renewal rates and that's what I focus on is making sure our customers are happy, that they're getting tons of value from the product. And if we do that, they're going to keep coming back.

Michael Chang

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

A

The next question comes from Alex Zukin with Wolfe, followed by Keith Weiss with Morgan Stanley.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Hey, guys, can you hear me okay?

Sanjit Biswas

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

A

Yeah.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thanks for taking the question and congrats on another great quarter. I guess maybe just two for me. The first one, if you think about the Asset Tag product, the industrial Asset Tag, it's pretty remarkable to hear about a multi-hundred thousand dollar deal in like basically the first weeks of availability. So just, if you can give us your sense, Sanjit, for like the trajectory of how to ballpark the TAM for this product relative to telematics, video-based safety and others, where does this kind of fit in that game and how fast relative to those other products can this ramp over the course of the coming year? And I got – or coming years and then I got a quick follow-up?

Sanjit Biswas

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

A

Sure. So, it's hard to do a compare versus safety in telematics because when we released those products, we were a much smaller company. We weren't as well known in the market. And so, we're very pleased with how Asset Tags has kind of jumped off the line. There was a lot of excitement at the customer conference when we released it. And I think it's because it got our customers thinking about all the other assets they have in their operation that go well beyond vehicles and even trailers, like all the smaller assets, fiber splicers, tools, things that get left behind at jobsites. So, overall, it feels very strong. There's a lot of strong customer pull and interest in it. But again, it's hard to kind of compare it to products that we launched many years ago as a smaller company.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Okay. Understood. And then maybe Dom might not like this question, but the Federal Motor Carrier Safety Administration seems to be planning to revisit the ELD mandate in June of 2025. Is there any tailwind that you

can kind of see or have visibility on? Because it seems like that would expand your telematics [indiscernible] (00:14:15) like if it ends up being applicable to fleets that have [ph] 32,000 (00:14:20) engines, how applicable would – like how much more coverage do you feel like that could unlock within your existing large customers?

Dominic Phillips

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

A

Yeah. I think the way that we're going to continue to drive growth out of the business is really being more on offense, meaning customers are buying Samsara and really using us as a system of record across multiple products because they're getting ROI. They're finding ways to operate more safely and more efficiently and reduce their costs, improve their asset utilization and worker productivity. There may be other regulatory compliance things that ultimately kind of pop up, but we're not necessarily tracking that or relying on that to kind of drive future growth. It's really, more about kind of being on offense and providing ROI for customers and we'll take those things as they kind of come up. But none of that's kind of on our radar right now.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. [indiscernible] (00:15:12). Thanks, guys.

Michael Chang

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

A

Next question comes from Keith Weiss with Morgan Stanley, followed by Kirk Materne with Evercore.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys, this is Chris Quintero on for Keith. Thanks for taking the questions here. I wanted to go back to an interesting slide you had at Analyst Day, where more than half the market does not use a telematics solution and an even higher percentage does not use a video safety solution. So, curious to hear your thoughts on why these companies are not using a provider today. And are there any potential challenges around getting these customers to adopt the solution or is it really just a timing thing and eventually everyone will?

Dominic Phillips

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

A

Yeah. So the dynamics are obviously different on the telematics side. Again, it's a industry, it's a product set that's been around for multiple decades. And as you said, more than half or roughly 50% of commercial vehicles in North America are not using a solution today. And so, most of our customers are multiproduct. And so, it's often the case that they're subscribing to multiple products, which ultimately helps convince them to maybe adopt telematics technology when they weren't using it previously. On the other side, safety, it's really tied more to recent technology tailwinds. So, going to 4G or HD videos has really kind of unlocked the ability to sell a solution and safety and we're seeing that that market rapidly start to adopt new technology. And so maybe at the time of the IPO, only 5% of commercial vehicles had a solution, now we're up to 10%. And a lot of our safety ARR and growth is coming from new use cases for customers.

Sanjit Biswas

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

A

And Chris, if I can just add one more point there. If you zoom way out, historically, telematics have been viewed as something that was prevalent in the transportation industry, so kind of long haul trucking. As we described

earlier in the prepared remarks, 87% of our business came from industries outside of that, field services, construction were very strong. And so, what we're seeing is even for applications like telematics, new industries that had not previously adopted GPS tracking are adopting it and then to Dominic's point around video-based safety, that's enabled by new technologies, the connection, the quality of the cameras, but also AI, being able to go – sift through all the safety events and deliver value for their customer.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's super helpful. And then my second question is for both of you. Clearly, things are firing on all cylinders at Samsara and the results clearly back that up. But just at a high level, we all can always improve. So, I'm curious from both of your perspectives, what are some areas at Samsara that you're looking to improve on or get better at today?

Dominic Phillips

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

A

There's a lot that obviously that we can, improve on. I think it's just about execution, can we make sure that we're hiring the right people and retaining the right people and creating the right kind of company culture and ultimately improving sales, capacity and productivity? Can we can we make sure that we're making the right capital allocation decisions around R&D and building the right products, not only focused on kind of near-term growth, but as we've demonstrated over recent product announcements, making sure that we're planting seeds for medium and longer term growth to drive that durability, make sure that we're constantly taking customer feedback and making improvements. And so, there's just a lot of execution that's required, obviously, as we continue to scale and we're very focused on that.

Sanjit Biswas

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

A

Yeah. I think I would echo Dominic's points around there's a lot that we can do and one of our operating principles at our company is to build for the long term. I feel like we can always do a better job spending time with customers in the field, hearing what [indiscernible] (00:18:54) want us to build and put on the platform. So, if I had more hours in the day, that's what I would go do, it's go spend even more time with the customers.

Christopher Quintero

Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thanks, guys.

Michael Chang

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

A

All right. So, the next question comes from Kirk Materne with Evercore followed by Matt Hedberg with RBC.

Kirk Materne

Analyst, Evercore ISI

Q

Great. Thanks, guys and I'll echo the congrats on a great quarter. Sanjit, I was wondering, I realize Asset Tags are incredibly early on for you all, but one of the things that's kind of interesting about it is that these tags can be used for incredibly high-value assets [indiscernible] (00:19:27) maybe lower value assets. I'm just kind of curious if customers are leaning one way or the other. I think you guys gave the example of [indiscernible] (00:19:34) from a toolbox to a train car full of potash. I was just kind of curious, are they going after the high asset value assets at all

and does that inform your thought process on pricing longer term? Again, I realize this is like the first quarter end, I was just kind of curious what you're seeing out there.

Sanjit Biswas

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

A

Sure. As you said, it's very early, but it's exciting to see all the different use cases. And I think we mentioned earlier, we're seeing basically new use case every week. It's hard to see a specific pattern related to asset value. A lot of what we're hearing about are assets that are left behind that were historically untracked and these are ones that often don't have power. So, they're not connected to a vehicle or they don't have a fuel source or battery in them. So, that's a lot of it. And that encompasses tools, but there's all kinds of accessories in the world of physical operations. If you think about an excavator, for example, the little bucket at the end gets left behind at a jobsite. Those can cost thousands of dollars we've heard same thing about crane parts and so on.

So, I would say a lot of different kinds of assets is the pattern, if there is one. But we should see a little more of kind of the high value versus low value over the next couple of quarters. Stepping back, we have a portfolio strategy. When it comes to equipment, we offer powered equipment trackers. We have unpowered, whole family, really. And so, we kind of view it as a portfolio and we can kind of mix and match within a customer's deployment to meet their needs.

Kirk Materne

Analyst, Evercore ISI

Q

Okay. That's super helpful. And then, Dom, just a really quick follow-up. Obviously, great to see the leverage flowing through to cash flow numbers and the operating margins. Given the strength in demand, how are you thinking about hiring heading into calendar 2025? I realize it's early, but I assume you're starting to think about that now, was just kind of trying to think about how that might impact sort of your thought process over the next, call it, couple quarters?

Sanjit Biswas

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

A

It's still really too early to kind of get the calendar 2025. I think we're just kind of kicking off our annual operating plan kind of review process and so we'll have more details on that in a couple of quarters. But the hiring has continued to be robust. We obviously had a kind of an accelerated hiring year last year. We've continued to hire aggressively this year and we're kind of on track with our plans and we'll work through our annual operating plan review process and figure out what we're going to do for next year.

Kirk Materne

Analyst, Evercore ISI

Q

Super. Thank you all.

Michael Chang

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

A

The next question comes from Matt Hedberg with RBC, followed by Jim Sesh with Piper Sandler.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Great. Thanks guys for the questions. Congrats again. I really do appreciate the sizing, the asset [indiscernible] (00:22:14) in the first quarter. It was helpful. I'm curious and I know again it's early, but looking at that customer where you saw \$300,000 uplift, do you get a sense like that's like an initial purchase, did they think about scoping that like that's going to keep – get them going for the next year. I was just sort of curious because that's a big number, any perspective on where that order would be in their Asset Tag journey?

Dominic Phillips

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

A

I think for that customer and for other customers that are at least in the pipeline, there's really more of a kind of a phased rollout approach of, we're going to go after one use case upfront and then we're going to find other things that we ultimately want to track and bring into the Samsara Cloud. And so I think this kind of quarter will be indicative of future quarters where it's more of a land and expand over time.

Sanjit Biswas

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

A

And if I can add to that a little bit, some of our customers, once they try the Asset Tags, they're discovering new use cases within their operations. One of the examples we shared in the remarks, I met the customer and they ordered a few thousand tags. One of the departments had a project in mind and another department swooped in and said, wow, this is super useful. We'd like half of those. And so, they had to come back and order some more and it's exciting because that means we're providing value for these customers.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

That's great. Great color. [indiscernible] (00:23:30) on that launch. And then maybe reflecting back on your user event, which I thought it was a well done event. There's a lot of buzz about generative AI and I think trying to find that [indiscernible] (00:23:43) use case that your customer base is looking for. Can you give any perspective on sort of like where we're at in that journey? I mean, is that something that we're thinking about in the next year or so because I have to imagine there's a lot of opportunities to leverage that sort of technology within your Connected platform.

Sanjit Biswas

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

A

Yeah, absolutely. Matt, if you recall in our Investor Day, we shared a demo of basically a chat environment that is powered by the unique data asset that we've been creating here at Samsara. So, we talked about maintenance, for example, being able to – in plain English or plain Spanish, whichever you prefer, be able to tell you which vehicles need maintenance next, what's wrong with them, all that kind of detail. So, we're excited to experiment. I think this technology is absolutely transformational and can deliver a lot of value for the customers. It needs to be practical and useful in terms of how we deliver it. So over the next couple of months, we're rolling that out to customers and getting their feedback and enhancing it through our feedback loop.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Got it. Thanks a lot guys.

Michael Chang

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

A

The next question comes from Jim Fish with Piper Sandler, followed by Michael Turrin with Wells Fargo.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Hey, guys. Thanks for the questions here. I guess underneath, it does look like the mid-market ARR accelerated. And so Dom, how much of that was driven by sort of SMB expansion versus net new? And just generally overall, how should we think about the percentage of ACV from new versus existing this quarter?

Dominic Phillips

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

A

Yeah. Like in our most recent quarters, it was pretty balanced. It tilted slightly towards expansion. So, it was very strong expansion quarter, we talked about getting to our net retention rate targets, but it was also a really strong new logo quarter. It was our second highest quarter ever in terms of new core customers added. We talked about 9 of the top 10 new logos were multiproduct transactions and so similar to the kind of the most recent quarters, it continued to be very balanced.

James E. Fish

Analyst, Piper Sandler & Co.

Q

And look, in your prepared – in your outlook in the back pages there, you talked about net new ARR and that you're embedding macro worsening in your ARR outlook. But are you actually seeing any impact to that business today, how are deal cycles relative to nine days ago?

Dominic Phillips

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

A

No, customer demand continues to be robust. I think we're just making sure that we're setting up expectations in a way that we feel highly confident that we can hit. Obviously, there is talks about slowing macroeconomics and we're in an election year. And so there's just more inherent kind of uncertainty. But with that, we want to make sure that we're setting expectations that we feel good about [indiscernible] (00:26:31) and again, we're not seeing an impact in customer demand, but it's something that we're always watching out for.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Thanks, guys.

Michael Chang

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

A

The next question comes from Michael Turin with Wells Fargo, followed by Dylan Becker with William Blair.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Great. Appreciate taking the question. It's something we've probably touched on before, but the diversity of logos you're landing certainly stands out. It's actually the State of Maine, US supermarket, two Fortune 500s. So maybe you can just go back to the diversification the business holds and how Samsara's go-to market and underlying platform are able to address all of those different types of customers as effectively as you are.

Dominic Phillips

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

A

So, Michael, I think one of the interesting things we've learned over the last few years is how much commonality there is across these different industries. So, whether you're in construction or field services or the state of Maine, you're always trying to be more efficient. You're trying to understand how to be safer, how well your assets are utilized. So we focus on those common use cases and find that they really do apply across these different industries. We do break out our public sector team because the way the deal cycles work is a little bit different and contract and government agencies is a bit different. But we have otherwise a pretty much a generalist sales team who are able to sell across these industries.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Great. And Dom, in Materials, there is some commentary around the operating margin improvement flowing through to free cash flow. Maybe you can just help level-set all of us as we're working through models just in thinking through the delta between those two, how we should expect that to progress going forward?

Dominic Phillips

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

A

Yeah. And so, we did talk about, yeah 200 basis points of operating leverage improvement for the year and then that 200 basis points would flow through to free cash flow. There is more seasonality in free cash flow where Q1 and Q3 tend to be a little bit higher than Q2. Q1 gets the benefit, obviously, of the collections coming in from Q4, which is our seasonally strongest net new ACV quarter. And then Q4 tends to be our largest free cash flow quarter because Q4 is our largest, seasonally largest net new ACV quarter. And so, a lot of benefits from that quarter than obviously all of the kind of the second and third year kind of billings from the contracts that were booked in previous year. So, there's a little bit more kind of lumpiness within free cash flow. But for the rest of the year, we do expect another kind of 200 basis points to flow through to both operating margin and free cash flow margins versus what we guided to in consensus.

Michael Chang

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

A

All right. The next question comes from Dylan Becker with William Blair followed by Matt Bullock with BofA. Okay. Let's go with – [indiscernible] (00:29:35) out there. Let's go with Matt Bullock with BofA followed by Alexei Gogolev with JPMorgan.

Matt Bullock

Analyst, BofA Securities, Inc.

Q

Excellent. Hi. Thanks for taking my question. A few if I could on the new product launches. So, great to see the early traction with the Asset Tag. Understanding it's early days. Can you talk about how we should think about the pricing and packaging strategy there now that there's been a little bit of time to collect feedback from the broader customer base?

Sanjit Biswas

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

A

I'll start with that one. I think the initial pricing that we set on the Asset Tags seems to be working well. Feedback has been strong and like we talked about earlier, there have been pretty significant orders on it. We do think of the Asset Tag again as part of a portfolio within our Connected Equipment line. So, there's lots of different

tracking products we offer for nonvehicle assets and I think it fits in well, especially because it gives you the ability to track some of the less expensive, smaller assets that are out there in operations.

Matt Bullock

Analyst, BofA Securities, Inc.

Q

Super helpful. Thanks. And then just one quick follow-up on the continued strength in Europe. I think you said it was the fourth consecutive quarter of accelerating ARR growth. What would you attribute that to? Is that just building up a larger base of reference customers, better sales infrastructure or just improvements to the product market fit?

Sanjit Biswas

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

A

I think it's really all of the above. Obviously, Europe's a really big market opportunity for us. I mean, if just on the commercial vehicle side, there's more commercial vehicles in physical operations assets in Europe than there are – in North America and so. It's an area that we've been focused on a lot of sales capacity, building pipeline, making sure that we have the right products for those given regions and just kind of consistent investment has really paid off in particular over the last four quarters.

Matt Bullock

Analyst, BofA Securities, Inc.

Q

Excellent. Thank you very much.

Michael Chang

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

A

Looks like we have Dylan back. So let's go, Dylan Becker with William Blair, followed by Alexei with JPMorgan.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Great. Thanks, guys. Sorry about that. Maybe starting with Sanjit or Dom here. Given that the ROI is so high and obviously you're seeing healthy demand in the ecosystem. I guess, what's keeping customers from adopting even faster and realizing some of the value that you guys deliver? I know that they are spaced rollouts maybe, but is there a way to think about how we should think about that evolution of cross-sell and upsell kind of playing out within the existing base?

Dominic Phillips

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

A

So, a lot of these physical operations customers are really in the early innings of digital transformation and so adopting technology, there's change management required internally, but really ensuring that they get ROI and therefore they do it more in a kind of a phased rollout way. And we're fine working with customers, whether they want to kind of take the – taking all the licenses upfront or they want to do a phased rollout for us, we just want to make sure that they're getting value and they're getting real ROI and really kind of depends on customer by customer basis based on kind of where they are in their journey in terms of adopting technology.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Okay, okay. That makes sense. And then sticking to, I think, kind of some of the highlights as well too, on the large customer side, step up in both new logo adds and revenue per customer. Dom, I guess, for you, how does this help fuel confidence in that outlook given this is becoming an incrementally kind of more strategic and larger segment that's growing faster than the aggregate mix here?

Dominic Phillips

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

A

Yeah. It's been incredibly consistent. I mean, like over the last several, several quarters, kind of 1 percentage point of mix continues to move towards the large customers, we're now at 54%, I said 50% a year ago and 46% a year before that. And so this is an area where we continue to make more and more investments. We're really purpose-built for these large enterprises with complex physical operations. They have the ability to take on more products. We can just have more impact and drive more ROI for those customers. And so, that will continue to be an important part of our growth strategy.

Dylan Becker

Analyst, William Blair & Co. LLC

Q

Great. Thanks guys.

Michael Chang

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

A

Thank you. The next question comes from the Alexei with JPMorgan, followed by Derrick with TD Cowen.

Ella Smith

Analyst, JPMorgan Securities LLC

Q

Good evening. This is Ella Smith calling on behalf of Alexei Gogolev. Thank you for taking our questions. So, first, I was hoping that you could share whether there are any products to call out that customers cross-attach either particularly fast. but then also particularly slowly.

Dominic Phillips

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

A

I think it's a consistent pattern. Most of our customers are adopting multiple products. Obviously, our two largest video-based safety and vehicle telematics tend to be the most common. But equipment monitoring and some of the emerging products combined for more than \$150 million of ARR. So, again, it really depends on individual customers and what the use cases are and we see different combinations of products across all of our customers.

Ella Smith

Analyst, JPMorgan Securities LLC

Q

Very helpful. Thank you. And my second question, are you interested in investing in additional product development or are you satisfied with your product portfolio at this juncture?

Sanjit Biswas

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

A

Well. I think I can say as a technology-oriented founder, we're here to build products that go solve problems for our customers. So we're absolutely investing in R&D and it's an area that we get a lot of great ideas from our customers on. So, we're going to keep improving the products we have and investing in some new ones.

Ella Smith

Analyst, JPMorgan Securities LLC

Great. Thank you both.

Q

Michael Chang

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

The next question comes from Derek with Cowen, followed by Junaid with Truist.

A

Derrick Wood

Analyst, TD Cowen

Great. Thanks. Congrats on another strong quarter. Sanjit, can you dive a little bit into the technology behind the new Asset Tags? I know this uses Bluetooth instead of your typical vehicle gateway systems. What are the differences between using Bluetooth versus gateways? Obviously this helps target a lot more assets to light up and track, but what capabilities do you give up that you have to rely on other networks and what are the implications for your COGS requirement?

Q

Dominic Phillips

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

Yeah. So in terms of how these Asset Tags connect, they are absolutely powered by Bluetooth, but we have an industrial-grade Bluetooth implementation, so bit of a broader range. It's designed with security in mind as well. But again, Bluetooth doesn't connect to the cellular network. Instead, these devices connect to the Samsara gateways that are out there. We have millions of gateways out there. There's a high enough density now that we can achieve near real-time tracking with them. And that's really a byproduct of the scale that we've achieved as a company. We've basically created this big network across where operations happens. So very excited to be able to do that. The implications of that are that the Bluetooth radios do cost less than the cellular modems. They're also more power-efficient because they don't broadcast all the way to a cell tower. So, the battery life is enhanced. So in a very small form factor, the tag is the size of a fun-sized candy bar, we're able to achieve multi-year, above four-year battery life for our customers, while doing that real-time tracking.

A

So, again, not something we could have done with cellular and not something that we could have done until we achieved the scale and density of the Samsara network that we have with the millions of gateways out there.

Derrick Wood

Analyst, TD Cowen

Got it. That's helpful color. Dom, I know we only get total customer count once a year, but can you speak to just the velocity of how total customer count is trending versus historic levels and how you're feeling about making sure you've got kind of a funnel to keep graduating a healthy level of customers into that \$100,000 number and drive good growth in that \$100,000 number?

Q

Dominic Phillips

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

Yeah. As I said in the earlier answer, it was our second highest quarter ever in terms of new, new core customer logos added, so really strong. And again it drove, roughly, close to 50% of the overall kind of net new ACV, actually it was a little bit slightly of a larger expansion quarter. And so kind of similar to these previous quarters, landing new logos is really important for us because obviously that leads to future expansion opportunities and it was very kind of consistent mix from previous quarters.

A

Derrick Wood

Analyst, TD Cowen

Q

Right. Thank you.

Michael Chang

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

A

Thanks, Eric. Our last question today comes from Junaid with Truist.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Right. Thank you for taking my question. Just on the large customer count, as you continue to shift your focus on serving these larger enterprises, which have been growing pretty impressively, what are some of the additional levers that you can use apart from maybe hiring more quota-carrying reps to further drive that large customer penetration?

Dominic Phillips

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

A

I think a big part of it is this capital allocation and R&D investment. The more products that we can create and obviously we're reaching a pretty good velocity on the kind of an annual basis. It just opens up more opportunities for us to have conversations with customers and ultimately solve more of their problems and create more ROI and have more impact for them and if we can continue to do that, that will allow us to continue to grow the large customer cohort fast.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thank you.

Michael Chang

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

Okay. This includes the question-and-answer portion. Thank you for attending our Q2 fiscal year 2025 earnings call. Before I let you go, I have a few short announcements. We'll be attending the Goldman Sachs Communicopia Conference in San Francisco on September 9, the Wharf Technology Conference in San Francisco on September 10, the Piper Sandler Growth Frontiers Conference in Nashville on September 11 and the JPMorgan Software Forum in Napa on October 8. We hope to see you at one of these events. That's it for today's meeting. If you have any follow-up questions, please email us at ir@samsara.com. Thanks again. Bye, everyone.

Operator: Goodbye.

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