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Matterport, Inc. (MTTR)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. And welcome to the Matterport Second Quarter 2021 Earnings Conference Call. At this time, all participants are on a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] As reminder today's conference is being recorded.

I would now like to turn the call over to your host, Mr. Soohwan Kim, Vice President of Investor Relations. Sir, you may begin.

Soohwan Kim

Vice President, Matterport, Inc.

Thank you. Before I begin, I'd like to remind you that today's call contains forward-looking statements within the meaning of federal securities laws including but not limited to statements regarding Matterport's future financial results and management's expectations and plans for the business. These forward-looking statements are subject to numerous risks and uncertainties that may cause actual results to differ materially from those discussed on today's calls. Additional information regarding the risks and uncertainties that could cause actual results differ from forward-looking statements can be found in our filings with the SEC. Any forward-looking statements made on this call including responses to our questions speak only as of today and Matterport assumes no obligation to update or revise them whether as a result of new developments or otherwise except as required by law.

In addition, today's call may include discussion of non-GAAP financial measures. These measures should be considered as a supplement to and not a substitute for the GAAP financial measures. Reconciliation of each of these non-GAAP financial measures to the most directly comparable GAAP measure can be found in today's earnings press release which is available on the company's website. Hosting today's call are RJ Pittman, Chairman and Chief Executive Officer of Matterport; and JD Fay, Chief Financial Officer.

Now I would like to turn it over to RJ to begin.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

Thanks, Soohwan. Good afternoon, everyone, and thank you for joining us today. I'm very excited to share our second quarter financial results with you. This was another record quarter for Matterport, as our subscriber base grew to over 40,000 and we delivered \$30 million in total revenue, up 10% sequentially from the March quarter. JD Fay will discuss our strong second quarter financial results in more detail a bit later.

I'm delighted to be joining you today on our first earnings call as a public company. We began trading on the Nasdaq under the symbol MTTR on July 23. This transaction generated \$640 million in gross proceeds to fuel our sizable ambitions to digitize the built world. This is a long-term opportunity and we believe we're well-positioned to seize it. Starting in Q3, we began investing the proceeds to capture the market opportunity for years to come.

We remain focused on the long-term for Matterport and this has served us well as the market for digitization of the built world continues to expand. As a public company, we will continue to invest in the future by laying the foundation for the next stage of growth across our platform.

Since this is our first earnings call as a public company, I'd like to provide a brief overview of Matterport and the market opportunity ahead. Founded in 2011, Matterport has been digitizing the built world for a decade. It began with our market leading 3D platform that lets anyone turn a physical space into an immersive digital twin. We have been relentlessly perfecting our craft to create the most detailed, accurate and data rich digital twins in the industry. Our 3D reconstruction process is fully automated powered by advanced computer vision and artificial intelligence allowing our solution to scale with equal precision to hundreds of millions of buildings and spaces of any kind anywhere in the world.

Matterport digital twins are captured from any compatible camera from sophisticated 3D imaging equipment such as Matterport's ground breaking Pro2 camera to the smartphone in your pocket. Our customer base has grown to over 400,000 subscribers, digitizing spaces in more than 150 countries and growing. We call each digital twin captured by our customers a space and our total spaces under management or SUM as we refer to it has increased to 5.6 million, up over 75% from a year ago. We have digitized more than 15 billion square feet of space across multiple industries from homes, offices, museums, and schools to factories, hospitals and retail stores.

Our total addressable market is enormous. Retail is the largest asset class in the world with an estimated value of \$230 trillion. This is more than three times the value of all global equities combined. With an estimated 4 billion buildings worldwide, the built world is the largest undisrupted market with less than 1% digitized today. Within many of the 4 billion buildings there are multiple unique spaces to digitize, yielding as many as 20 billion total spaces to capture. We believe the total addressable market opportunity for digitizing the built world is over \$240 billion. With first mover and first scaler advantages, Matterport is poised to define this vast market for years to come.

With the help of artificial intelligence, machine learning, and deep learning technologies, we believe additional growth opportunities are available to us as we continue to unlock powerful spatial data driven property insights and analytics. This increases the total addressable market for digitization and datafication of the built world to more than \$1 trillion. Our software provides customers with critical tools and insights to drive material ROI improvements across every aspect of the building lifecycle including design, build, operate, remodel and repair. Our platform and data solutions are universal across industries and building types, giving Matterport a significant advantage as we scale into this huge market to help increase the value of the largest asset class in the world.

The Matterport Spatial Data platform delivers value across a diverse set of industries and use cases. Large retailers can manage thousands of store locations remotely. Real estate agencies can provide virtual open houses for hundreds of properties and thousands of visitors at the same time. And property developers and insurance companies can more precisely document and assess building integrity and the construction process every step of the way with greater speed, efficiency and precision.

Matterport's value proposition delivered significant time and cost savings for our customers, while providing the data insights they need to manage their spaces more effectively. Here are two examples. First, in real estate, we work with the top residential and commercial real estate companies in the business. Large residential real estate customers like Redfin, Compass, Apartments.com and Keller Williams use Matterport to dramatically increase engagement, attract more prospects and close business online without time consuming physical site visits.

Research shows that homes with 3D digital twins sell 30% faster and realize up to 9% higher price compared to homes without digital twins. Similarly, in commercial real estate companies like JLL and Cushman & Wakefield use Matterport to digitize thousands of buildings globally. By taking these assets online our platform enables these customers to manage their global portfolio anywhere on any device. Cushman & Wakefield has increased its bookings with us by 26 times over two years as they were able to prove out tremendous hard dollar cost savings.

Second, global telecom leaders like Ericsson, Verizon and AT&T are leveraging Matterport to manage construction and scale facilities management of their vast telecom locations globally. As you can imagine, the time expense and carbon emissions of travel to manage and develop tens of thousands of structures worldwide is very costly. With a strategic partner we have integrated Matterport into Eriksson's enterprise systems to speed up the upgrade and rollout of 5G cell sites worldwide while improving the efficiency of large scale facilities management. We have grown this business by more than 60% in the past year with much more to accomplish.

We believe we can continue to grow the company by executing on our well-established go-to-market playbook. I'd like to briefly walk you through our four vectors of growth. First, scale our enterprise business across industry verticals. Matterport will continue to drive customer growth by expanding use cases and introducing new applications. We are particularly focused on acquiring and retaining enterprise customers. With our massive spatial data library and pioneering AI-powered capabilities, we pride ourselves on our ability to deliver value across the property lifecycle for a wide range of industries. This includes real estate architecture engineering and construction travel and hospitality insurance industrial retail and facilities. We will also increase investments in industry specific sales and marketing initiatives to increase sales efficiency and drive customer growth and recurring revenue growth in our Enterprise Customer segment.

Second, accelerate our international expansion. The majority of the world's buildings are located outside of the United States and we foresee massive opportunities in pursuing the digitization and datafication of the building stock worldwide. While we already serve customers in more than 150 countries, we will seek to further penetrate these existing geographies in order to add their unique spatial data to our platform as more customers are acquired and more use cases adopted. This creates a powerful network effect that will allow us to expand further into the under penetrated countries and unlock additional properties and spaces.

Third, increase our investment in research and development. We will continue to invest in R&D to improve our core AI technology and data science, expand our solutions portfolio, and support seamless integration of our platform with third party systems. We have a robust pipeline of new product releases in development for the foreseeable future. A little over a year ago, we launched Matterport for iPhone, making Matterport accessible to hundreds of millions of people. Anyone with an iPhone can download the free app to capture and collaborate on

3D spaces. Matterport for iPhone helped fuel our subscriber growth over 10-fold in less than one year in the market. And just as Apple announced its new iPad and iPhone with LiDAR, we released a new version of Matterport that takes advantage of Apple's new depth sensor to increase the fidelity and accuracy of our digital twins.

We also launched a strategic initiative to develop an offering for the other 85% of the world's smartphones that run the Android operating system. And not surprisingly, our customers have been asking for this too. We listened and we recently launched the Matterport Capture app for Android, making our technology available to billions of Android users and significantly reducing their cost of ownership. This release for Android dramatically expands our market reach and has the power to accelerate our international expansion efforts across Asia-Pacific, Europe, the Middle East and Africa where Android market's share is especially concentrated. We see significant potential for future customer growth as we release more products and create additional upselling opportunities.

Our final growth vector is focused on expanding partner integrations and our third-party developer ecosystem. We are fostering a strong network of partners and developers for the Matterport technology platform. Built on top of our open, scalable and secure enterprise platform, organizations across numerous industries have been automating project workflows, enhancing customer experiences and creating customer applications for high value vertical use cases. We have recently announced some exciting partnerships and I'd like to spend a few minutes highlighting three of them: PTC, Facebook and Apex.

Starting with PTC, we announced the platform integration with their Vuforia augmented reality software offerings. As you may know, PTC is a global software leader enabling industrial companies to digitally transform product and service creation. Our joint solution will give PTC customers a highly visual and interactive way to deliver digital content onto the environments captured by the Matterport platform. Our solution is commercially available through both PTC sales channels as well as Matterport direct sales channels. PTC will send us leads or their customers will come to us for their API key when they want to activate Area Targeting, which is a feature inside the Vuforia that we enable.

Moving on to Facebook, we announced a collaboration with Facebook AI Research, through which we made the largest ever dataset of 3D indoor spaces available exclusively for academic non-commercial uses. Home robots and AI assistance need to be trained on actual spaces to get better. And this rich spatial dataset has been glaringly absent before Matterport. I believe this collaboration validates the unique data that we have and our dataset continues to improve as our customers digitize more spaces.

And finally, we announced our partnership with Apex, a leading provider of digital store surveys to enable retail brands across the US and Canada to capture, organize and evaluate building data and information from all of their stores in one place. Apex has an impressive client roster including household brand names like Starbucks, CVS, Home Depot, 7-Eleven and Chipotle. Working together with Matterport and Apex, retail and restaurant brands can do full audit of a space, essentially turning imagery into structured data for usage analysis. Through object recognition, building characteristics will become searchable for better facilities management across a fleet of locations. Similar to PTC, we have a joint go-to-market motion with Apex.

These are just three examples to demonstrate Matterport's strength as the spatial data platform of choice. We are rapidly expanding our developer and partner ecosystem with more announcements forthcoming.

Matterport is a unique business leading the digital transformation of an entire industry. We believe the growth opportunity ahead will be measured in growth opportunity head will be measured in years and decades to be

captured through our proprietary technology, thoughtful execution and bold leadership. Quarter-to-quarter, we expect the market to be very dynamic as the industry evolves and the transformation takes hold.

I will now turn it over to JD who will talk about the strength of our business model and financial performance for the second quarter.

James D. Fay

Chief Financial Officer, Matterport, Inc.

Thank you, R.J. Q2 was another record quarter for Matterport. I am excited to share our quarterly financial results today. Before I dive into detailed financials, I would like to highlight the strength of our subscription-based business model and performance metrics.

We have the largest subscriber base in our industry with over 400,000 subscribers on our platform at the end of Q2. This is up an incredible 158% from the end of Q2 2020. A key driver of this growth is our freemium flywheel. Our freemium flywheel approach includes both free and paid subscriptions to the Matterport platform. The free plan is an important part of our business model as it provides subscribers a way to try Matterport using any compatible device including the smartphone in their pocket for free.

Many of these subscribers trade up to plans over time on their own or by connecting with our sales team to form an enterprise level relationship. Our strategy for flexibly enabling customers to join our platform has resulted in a highly efficient subscriber acquisition model yielding long-term, sticky customer relationships.

In addition to strong year-over-year subscriber growth, our subscribers are also increasing their spend with us at a healthy rate. Our net dollar expansion rate was 132% in Q2, a record up from what was then a record of 129% in Q1. We calculate this metric on a quarterly basis by comparing the aggregate subscription revenue attributable to a subscriber cohort for the year ago period to the aggregate subscription revenue attributable to that same cohort in the most recent quarter.

Historically, our net dollar expansion rate has been above 110% which we see as an attractive level. While this metric may fluctuate some quarter-to-quarter, we expect this metric will remain attractive as customers continue to digitize additional spaces in their portfolios and expand their use cases for Matterport 3D digital twins.

I will now discuss our Q2 financial results in more detail. Total revenue was a record \$29.5 million, up 21% from Q2 last year. This was in line with our internal forecasts. This growth was on top of one of the company's all-time best quarters last year when revenue increased 117% over Q2 2019. During the early days of the COVID pandemic in the US in 2020, we saw rapid adoption of Matterport digital twins particularly in residential real estate and which we believe accelerated the digital transformation of real estate by several years. That trend continued in 2020 through the summer and Q3, thus Q3 will be another tough year-over-year comparison quarter. But we expect to start to normalize year-over-year comparisons beginning with Q4.

The majority of our revenue is comprised of recurring subscription revenue and license revenue. Subscription revenue was up 53% from a year ago to \$15.3 million and represented 52% of total revenue in the second quarter. In addition, license revenue was \$2.1 million, as we continue to drive sales of our data licensing products. Note that license revenue can be very lumpy from quarter to quarter depending on the timing of complete transactions and any associated implement work that we must perform to recognize revenue.

Our annual recurring revenue run rate of subscription revenue or ARR was \$61.1 million. Importantly, our ARR provides us visibility into approximately 90% of subscription revenue for the balance of 2021. While the majority of

our revenue is derived from subscriptions and licenses, we also have a services business and a product business. Both of these businesses are designed to accelerate the speed at which customers come onto our platform as new subscribers.

Starting with services, our services revenue was \$2.9 million up 29% year-on-year. We provide a variety of services including in-app purchases and capture services. In-app purchases provide our customers additional digital assets for their spaces such as schematic floor plans or TruePlan in the insurance industry. Matterport Capture Services is an offering by which enterprise customers hire us to subcontract the capture of their spaces in high volume enabling them to get onto our platform more quickly and at scale. We also recently expanded capture services on demand extending our offering to more small businesses, real estate agents and consumers. We offer capture services around the world by leveraging a large network of service partners. Taken together capture services revenue is a leading indicator for future subscription revenue growth.

Our product revenue was \$9.2 million up 13% from the first quarter of this year and compares to \$12.1 million in the second quarter of 2020. Product revenue primarily comes from the sales of our high precision 3D spatial data camera called the Matterport Pro2. We saw tremendous demand for the Pro2 camera last year during the early days of the COVID pandemic in the US. Since then, our Capture Ubiquity strategy has provided more options for customers seeking to capture Matterport spaces and, along with expanding our production capabilities, provided relief to the supply chain in late 2020.

For example, in May of 2020, we launched Matterport for iPhone which allowed everyone to use the phone in their pocket to create digital twins, leading to a dramatic increase in our subscriber growth. In addition to the Pro2 camera and the iPhone, customers can also create Matterport 3D digital twins using a number of third-party cameras such as inexpensive 360 degree cameras and a LiDAR camera. Our capture services initiative has also provided customers a way to create Matterport spaces without purchasing a camera at all as customers can now rely on our service partners to create digital twins on their behalf.

Moving on to our gross margin, our total gross margin for the second quarter was 60% up 740 basis points from a year ago. In addition, our subscription gross margin was 78%, up 690 basis points from a year ago. We expect subscription gross margin to vary by 100 to 200 basis points from quarter to quarter as we invest in additional research and development activities. R&D expense relating to the development of our subscription platform is capitalized and then amortized in the subscription cost-of-goods sold line typically over three years. Further, as we expand our customer success support function in anticipation of future subscriber growth, those costs are recognized in the subscription cost of goods sold line as well.

Reviewing operating expenses in Q2, research and development expenses were \$7.1 million, up 56% from \$4.5 million in the prior year period per our existing plans to scale. The growth in spending is primarily attributable to investments in head count to increase our product development capabilities and throughput. SG&A expenses were \$16.1 million as compared to \$10.5 million a year ago. We continue to invest in our sales and marketing head count and programs to drive further growth. We've also added head count and other capabilities in our G&A organization in preparation for public company operations.

Operating loss was \$5.8 million in the second quarter as we expect it compared to a loss of \$2.2 million in the year ago period. We have a capital efficient business model and have demonstrated in prior periods that we can run our business on a cash flow breakeven basis. And notwithstanding these attributes and given the massive market opportunity available to us, we plan to increase our investments to continue to drive rapid growth. Net loss was \$6.2 million and diluted EPS was a \$0.62 loss for the quarter using the pre-merger share count of roughly 10 million shares.

Moving on to our balance sheet, we ended the quarter with \$42 million in cash and equivalents. Since the end of the second quarter, we closed the merger with Gores Holdings VI and added \$640 million before transaction expenses onto our balance sheet. With the additional capital raised and putting that capital to work we believe we can accelerate our growth both organically and inorganically over time.

We have already put some of the cash to work by identifying companies that are building upon expanding the Matterport platform and investing in the company SIMLAB. SIMLAB is an innovative European company that specializes in the digitization of buildings throughout the design and construction phases. We saw an opportunity to accelerate growth for the whole AEC industry taken advantage of our new financial firepower to invest for a result that is 1 plus 1 equals 10.

Now turning to our outlook, we are focused on realizing the opportunity to digitize and index the built world. This is a multi-year effort and we are focused on the effective capital allocation to put the internal capabilities and infrastructure in place to drive significant growth for the business and deliver lasting magical product experiences for our customers around the globe.

Additionally, this quarter we are beginning our life as a public company. Taken together, we are now introducing revenue guidance for the company which will be provided as a range. This range is intended to express the set of anticipated outcomes for revenue for the period indicated. While we know we are building something unique and that there may be volatility in our results in the short term, our intention is to share with you how we believe we are doing on this mission, what opportunities and risks we foresee along the way, and achieving a high say/do ratio relative to our stated goals. Accordingly, starting with revenue, we are today introducing a range for our expectation for the full year 2021 total revenue which is \$120 million to \$126 million. This compares to 2020 revenue of \$86 million and 2019 revenue of \$46 million.

One element to highlight again, as we have said in past conference calls, is that our license revenue can be lumpy. This is because these transactions are typically larger bespoke transactions that require a longer lead time to cultivate and then deploy. During the third quarter, we are in the define and implementation phases of several such license transactions. Accordingly, we may not recognize license revenue in the third quarter but would expect to do so in the fourth quarter.

Moving to earnings per share, we expect non-GAAP EPS to be in the range of a \$0.17 to \$0.25 loss. This assumes share count of approximately 204 million shares based on an estimate of weighted average shares. The share count could change based on warrant and stock option exercise activity. And please refer to our second quarter investor presentation on our website for more information about the share count.

In sum, I am very pleased with our second quarter financial performance and notwithstanding this record performance in Q2, we have only scratched the surface in our mission to digitally transform the built world.

Now I would like to turn the call back over to RJ.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

Thank you, JD. Matterport is a once in a decade company with extraordinary potential to revolutionize the way the world's largest asset class is created, managed, and valued over its lifetime. Our second quarter results mark another milestone for our company as we drive acceleration across our business and create tremendous growth opportunities for our customers, partners and our employees. Matterport created this category for the built world

and we are the market leader. In many respects, we are just getting started and we believe our best years are still to come. We can't wait to get started on this next stage of growth for Matterport in our next decade of innovation. We welcome you all to this exciting journey ahead.

Before, I turn the call over to the operator for questions, I would like to highlight a great customer video we have at the end of our quarterly investor presentation on our website. I would encourage everyone to take a couple of minutes to watch the video. Swinerton is a large commercial construction company headquartered in San Francisco with 4,000 employees. In the video, Swinerton explains how Matterport is a true game changer for its operations and the construction industry at large. And we couldn't agree more.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Dan Ives with Wedbush. Your line is open.

Daniel Ives

Analyst, Wedbush Securities, Inc.

Q

Yeah. Thanks and congrats coming out of the gate. Can you just walk me through that where you think the biggest areas of incremental modernization of the customer base are over the next 12 to 18 months?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. Thanks, Dan. So a couple of things just to reiterate, one, from a growth perspective, it's really encouraging to see the continued acceleration in the key metrics of this business. Number one, total subscriber growth up 158% year-on-year. Our subscription revenue up 53% year-on-year. And more importantly, to your question, net dollar expansion hitting a record 132% is a strong testament to our existing customers continuing to invest and expand their business with us over time. We've been at this for a number of years now over a decade. And to see that kind of expansion continuing to accelerate and increase quarter-over-quarter is really remarkable. And I think that's what's setting us up for a tremendous growth in the next decade ahead.

A couple of areas to focus in on where we're seeing tremendous momentum is, first, in the enterprise. This has been the fastest growing category for Matterport over the last year. I see it being continuing for quite a bit of time into the future for a couple of reasons. But first and foremost, the enterprise represents an enormous swath of building square footage and these facilities all have different reason and needs to be managed more efficiently and Matterport is penetrating this market opportunity with great scale. And so each enterprise company represents perhaps not just one building or one home or one individual property from which we can monetize but, typically, fleets of hundreds or thousands or even tens of thousands of physical locations. So that gives us also a tremendous leverage and great revenue growth efficiency.

The second one is international expansion. As mentioned, we have Matterported buildings in over 150 countries around the world but whereby no means fully penetrated in those markets. There are some countries alone such as India that have over 3 billion spaces that can be monetized and were just scratching the surface in Asia-Pacific. We have more headway in our European locations, but even in that region, just enormous growth opportunities. And part of the way that we're going to accelerate that growth in the international theater is

leveraging the premium flywheel that JD talked about. And that flywheel has also not yet even gotten to full strength with Android joining the mix for Smartphone Capture later this quarter. In doing so, we basically will have the vast majority of the smartphone platforms compatible with Matterport.

And as a reminder, there's over 5.5 billion smartphones in circulation in the world today and 1.5 billion new ones being added every year. So that is a tremendous network of capture endpoints for Matterport. And it's a key part of our mission to democratize 3D capture for all verticals, all use cases in all geos. And so the combination of those things I think spell strong momentum for quite a bit of time to come.

Daniel Ives

Analyst, Wedbush Securities, Inc.

Q

Super insightful. And then just as a follow-up, you or JD, just when you think about the free to paid conversion, just that trajectory or even a piece of that, like what's the best way to think about there even how you guys think about it in terms of modeling and where to show the variables especially as it potential could accelerate as the product offering expands? Thanks.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. This is a critical one for us and to sort of put some things in perspective, when we launched Smartphone Capture, it was basically Matterport for iPhone in May of 2020 as a very early beta and it was a relatively quiet beta launch. But in the first three days of deploying that product, making it available to the world, we signed up more subscribers to Matterport in three days than we did in the first eight years of the company. And that demonstrates, I think, the unmet demand for a more accessible product to digitize spaces out there in the world. And that, again, was just one platform being iOS and the Apple platform. Now going to Android, we're going to 5x, 6x of that available market to really expand the funnel of the freemium tier.

And all along through that process and over the course of the last year, we've had an incredibly strong conversion rates and conversion rates that I would describe as organic conversion, meaning not influenced or funded by marketing dollars from Matterport but these are customers that would come on to the platform, download the Matterport app to their iPhone, and convert to a paying subscription tier within 30 to 45 days which is the time window that the vast majority of them converted but at extraordinary rates all on their own. And what they're converting into is also quite interesting.

They're converting not just into a starter tier or approach tier but all the way up into enterprise tiers And Smartphone Capture has been equally powerful for Matterport and useful in not only helping to capture the long tail of the built world and useful and not only helping to capture the long tail of the built world but it's also a driver for converting enterprise companies in the Fortune 1000 because it is a very convenient mechanism to do a free try-before-you-buy on a space of any kind or any size including a large factory or production facility, our technology works great right out-of-the-box at a download with your smartphone.

And so looking ahead, I think one of the key elements is going to be expanding our reach to more capture endpoints with Android, expanding our capture endpoints even with iPhone. As it comes out of beta, the product experience and the capture experience and the performance is just getting better and better. And I think that's going to drive exceptional adoption for us in the future. And I'd really be looking at how Matterport gets behind putting Smartphone Capture truly out there into all of our global regions in a very forward and intentional way.

Daniel Ives

Analyst, Wedbush Securities, Inc.



Thank you.

Operator: Thank you. Our next question comes from Yun Kim of Loop Capital Markets. Your line is open.

Yun Kim

Analyst, Loop Capital Markets LLC



Thank you. Congrats on a solid execution, RJ and JD. So, RJ, can you give us an update on the Android capture product? What is your expectation regarding the initial uptake of the Android product versus, obviously, what was a very highly successful iPhone release last year? And you also mentioned Android even more popular outside of the US than iPhone so – and then on top of that, it does have a higher mix of [indiscernible] (39:14) end of the market. So do these two factors impact your initial adoption rate? And also even the conversion [indiscernible] (39:22) with iPhone related [indiscernible] (39:26) how we should think about the difference in the adoption dynamics between iPhone and Android release? Thanks.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.



Sure. So Android comprises roughly 80% of the smartphone platform market. So, it's big and it's, no question, going to have a material impact on how we grow the top of funnel for our business. And the first way to think about it is that the introduction of Android Capture was really deployed earlier this year to do the first of two things. And the first thing that Android Capture does which is very important is controls the Matterport Capture experience for our own camera, the Matterport Pro2, but also the third-party cameras we support, 360 cameras, the Leica BLK. And that's an important addition because we have so many customers out there, large, small and enterprise, that are committed to the Android platform.

And so from a cost of ownership point of view, just getting the Android controller in place which we call Android Capture out into the market is going to have huge implications especially for the SME markets which is large and highly distributed. And it's also very global because their alternative today is if they own Android devices, but they want to go start capturing something with Matterport, they have to go out and buy an iOS device to do so. They have to get an iPad or an iPhone to get started and that's a pretty expensive proposition, in many cases, more expensive than a 3D capture device itself, more expensive than surely a free SaaS plan of ours, our free tier, but even more expensive than our starter tier. So that's a pretty important upgrade for us to get that into the market. That's been a long time coming. It's in beta right now.

And the second part of Android that comes forward is there's Android Capture and Android Smartphone Capture. And that one distinction is enabling the device itself and the cameras that are onboard to actually become a capture device capable just like we did for iPhone. That's what's coming a little bit later this quarter. And what we absolutely intend to do is execute a Rolling Thunder global rollout. So it's not going to be kind of a single event that you know causes a you know dynamic movement in the market. But it's going to be a steady drumbeat as we carry it across North America, Europe and Asia and bring it out into all of our important verticals. You're right in that there is an especially strong concentration of Android devices in the international theater. We're very cognizant of that and we think that that's going to be important for us to be armed with a fully compatible Android offering before we push even our broader regional marketing activities more aggressively which we fully intend to do. We really want to do it when we have the full momentum of our capture arsenal ready to go and Android is a critical part of that for international. So this is going to be an unlock across the board from Matterport.

Yun Kim

Analyst, Loop Capital Markets LLC

Q

Thanks so much. Looking forward to the rollout. For JD, so we love talking about the NRR the dollar-based net retention rate which came in very strong. Can you explain the dynamics behind the continued strength that you saw over the last couple of quarters from your traditional 110% rate? And in terms of the NRR going forward, how should we think about the iPhone users coming in into the picture? Because I think starting Q3 you will have a meaningful number of them coming into the picture. Will those iPhone users necessarily changed the land and expand dynamics and start having an impact on your number?

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Yeah. Thanks, Yun. We're pleased with what we call the net dollar expansion rate number or the NRR as you noted. And it's very strong, largely because the enterprise customers in the business are growing with us and expanding other business with us and at least two days, on is they are continued to capture more and more Matterport 3D digital spaces across their portfolio properties. And because they are expanding their used cases with us. Someone might – a customer might start with us, for example, in the facilities management space and add in a promotion use case. And so there are a couple of ways that enterprise customers expand with us. And we're seeing that very widely adopted or occurring across that customer base which has been great. I think that's going to continue because we're just getting started with enterprises all over the globe and we're going to continue to press on global expansion as well.

Now that number, as I think we talked about in the prepared remarks, can move around because it depends a lot on the cohort from a year ago. So, I do expect it to be north of that traditional 110%, 112% that we have seen over the many past quarters, and remain a very attractive number like that. But that's where I expect it to stay over time, which of course means our customer base is continuing to grow with us.

Now, with respect to the SME group, I think that will also be additive and attractive to this metric over time because, you're right, we had tremendous subscriber growth over the past four quarters. And they are largely free, but they're converting to pay. And as they convert to pay, they start to, of course, press start on a starter plan and move up to a business or pro plan to larger plans and they're doing the same thing enterprise customers are doing, expanding their footprint of Matterport 3D digital twins as well as expanding their use cases. So, while I think that's a smaller base, it will grow over time. And I think it will contribute positively to this net dollar expansion rate.

Yun Kim

Analyst, Loop Capital Markets LLC

Q

Okay, great. Thanks for that. Congrats. And talk with you guys soon.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Thank you.

Operator: Thank you. [Operator Instructions] Our next question comes from Bhavin Shah of Deutsche Bank. Your line is open.

Bhavin-S Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my question and congrats on the strong performance on the quarter. Just one for RJ first, I know it's still early days, but maybe can you touch on any observable benefits of being a public company in terms of brand visibility?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. Thanks, Bhavin. Without a doubt, the last few weeks have absolutely raised the profile of Matterport and I think partly because we're the category leader, but we're the category leader in such an enormous market opportunity. It's a \$230 trillion asset class that comprises the built world in value, the largest asset class in the world. And when you have a first mover, first scaler advantage, the opportunity is enormous. And I think becoming a public company has really helped to illuminate that across the industry and really around the world.

And one of the most immediate impacts is an opportunity for us to continue to grow and scale the Matterport employee base. And you know we have prided ourselves on being able to attract, retain, and develop literally the best talent in the business across the technology industry. And it's had a profound impact on the company over the years and especially over the last couple of years. And as you can see in the earnings press release, we listed seven such phenomenal leaders that we added just in Q2 alone ahead of and kind of the lead up to going public. And we're going continue with this tailwind. You'll see us announcing more great leaders in the company here over the course of the next several quarters as we continue this expansion especially internationally.

Bhavin-S Shah

Analyst, Deutsche Bank Securities, Inc.

Q

That's great to hear. And just a follow-up just on the partnership front. Can you maybe elaborate on the PTC relationship? How should we think about this driving customer growth or revenue growth over the short-term medium-term and long-term.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. Our platform and partner strategy is important for a couple of fundamental reasons and that feeds into the PTC opportunity. It's important to point out that Matterport is not an end-to-end solution or a vertical solution. We're really an open platform. And part of the way that we have been able to unlock growth and scale in the business in recent years is by really investing and creating an enterprise grade platform business that companies like PTC and Facebook and Apex and Autodesk and Procore, just to name a few, are able to come on and tap into our unique spatial data library and integrate our data, integrate our solution, integrate our digital twin right into their own workflows, right into their own applications.

And this is really important because companies like PTC have a great foothold, in their case, industrial IoT and industrial CAD and AEC if you will. And in fact, Matterport and PTC share a number of enterprise customers particularly around the category of factory automation. It's an area that PTC is heavily invested in as a leader in this category. It's a massive growth opportunity. And most industries and most manufacturing industries are seeing the benefits of a digital transformation. And part of that is frankly led by Matterport being able to create a dimensionally accurate high fidelity true carbon copy and digital twin of any factory floor and all of the factory equipment that sits inside it. And that's used for everything from factory automation optimization, technology planning and innovation that can be done again stay live production factory lines but without having to actually touch production to be able to operate and innovate on a virtual platform that is Matterport is a game changer.

And this fits in incredibly well with PTC's complement which is creating digital twins and creating industrial IoT for the machinery and equipment that actually sits inside the spaces, so where Matterport provides the digital twin of the space, PTC can pick it up and provide an extraordinary amount of technology for all of the components that sit the inside that environment. And as we look to the future, these partnerships really create a nice one plus one equals 10 because we can create tremendous value for PTC's customers. And PTC has a very complimentary customer base to our own that allows us to get further penetrated into these really exciting growth markets with a scale partner.

So from that perspective, it's early days. We've enjoyed a great relationship with PTC over the last few years. They also became a strategic investor in Matterport in one of our earlier rounds before going public. And again yes, we have the resources now to really put our energy behind scaling these partnerships at large. We're really excited about potential that they present for us going forward.

Bhavin-S Shah

Analyst, Deutsche Bank Securities, Inc.



Super helpful and thanks for taking my questions.

Operator: Thank you. [Operator Instructions] Our next question is from Yun Kim of Loop Capital Markets. Your line is open.

Yun Kim

Analyst, Loop Capital Markets LLC



Thank you. I guess when I said talk to you soon, I really meant it. So as Bhavin mentioned, you have some very impressive list of technology partners, for instance, PTC, Procore, Autodesk and such. I know it's very early innings, but how much of a business is driven by your partners today? And then also is there an opportunity to really leverage those partners to really expand your international footprint rather than just obviously using them to expand your use case?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.



Yeah. So I'd say the answer to that question is somewhat of a dynamic one because the evolution of Matterport in recent years, we've basically moved the business almost – when I talk about the growth and our excitement and focus on the enterprise, we're turning even our pioneering category of residential real estate where for many, many years we have been the gold standard in creating virtual tours for residential real estate and open homes around the world, that has also moved to very much a partnership model and an enterprise model with the likes of Compass and Keller Williams, and JLL and Cushman & Wakefield on both the residential and commercial real estate side where by executing global long-term partnerships with companies at that kind of scale, we get access to tens of thousands, hundreds of thousands and ultimately millions of buildings that we have an opportunity to digitize. And more and more of our business is really building upon the opportunity to capitalize on these scale partnerships. And if we continue to operate in this fashion, you'll see a significant portion of our business coming from the power of these enterprises because of the sheer volume of square footage and building footprints that they have under management.

Now having said that, there remains tremendous upside in the long tail of the built world, right. And that could be everything from nightly rentals and Airbnbs to, of course, individual homes, apartments and small business locations as well, which tally into the billions of locations where that can all be service in a self-serve fashion and

sometimes perhaps with partners but also our goal is to make that absolutely simple for anyone to be able to capture a space as easy as taking a photo or a video with their smartphone. And we're well on our way to really hit you know both ends of the spectrum. But I'm really pleased with how fast and how strong our partnership strategy has evolved over the last few years. And it's really building on the strength of our enterprise platform that we've been investing in so heavily to get us to this point and now we're really in a great position to scale it.

Yun Kim

Analyst, Loop Capital Markets LLC



Okay. Great. Thank you so much.

Operator: Thank you. I'm showing no further questions at this time. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may all disconnect. Have a great day.

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