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PRESENTATION

Operator

Good day, and welcome to the Matterport Fiscal Fourth Quarter 2022 Results Conference Call. All participants will be in listen-only mode. (Operator Instructions) Please note today's event is being recorded. I would now like to turn the conference over to Mike Knapp, Vice President of Investor Relations. Please go ahead, sir.

Michael J. Knapp - Matterport, Inc. - VP & Head of IR

Thanks, and welcome to Matterport's Fourth Quarter and Full Year 2022 Financial Results Conference Call. After the market closed today, Matterport released results for the quarter and year ended December 31, 2022. The release is available on the company's website at investors.matterport.com. This call is being recorded and webcast live and a link to the recording can be found on the Investor Relations section of the Matterport website. Before we begin, I'd like to remind you that today's call contains forward-looking statements within the meaning of the 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 call. Additional information regarding the risks and uncertainties can be found in our filings with the SEC. All forward-looking statements are made as of the date of this call, and Matterport assumes no obligation to update or revise them, except as required by law. In addition, the financial references on this call will be on a non-GAAP basis unless otherwise indicated. These measures should be considered as a supplement to and not a substitute for 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 slides, which are available on the company's website. Hosting today's call are RJ Pittman, Chairman and Chief Executive Officer; and J.D. Fay, Chief Financial Officer. And with that, I'd like to turn it over to RJ to begin.

Raymond J. Pittman - Matterport, Inc. - Chairman & CEO

Thanks, Mike. Good afternoon, everyone, and thank you for joining us today. I am pleased to share that we have delivered record revenue of \$41.1 million in the fourth quarter, up 52% from the year-ago period, with subscription revenue hitting a record of \$19.3 million. Both of these figures exceeded the high end of our guidance range and demonstrates the success we can achieve as we execute on our plan to digitize the build world. This top line increase, combined with our continued focus on operating effectiveness, enabled us to post a net loss per share of \$0.09 at the top end of our guidance range. In addition, our subscriber base crossed another milestone in the fourth quarter, surpassing 700,000 subs for a total of \$701,000, up 39% from the year ago quarter, while spaces under management increased to over 9.2 million spaces, up 37% over the same period. For the full year 2022, we delivered record total revenue of \$136 million as enterprise demand was robust during the calendar year and more than offset a subdued U.S. real estate market.

We see the current economic environment driving more customers across facilities management, retail, AEC, insurance and travel and hospitality towards our solutions to improve productivity and reduce costs. Increasingly, we are seeing Matterport's digital twin platform being viewed by our customers as an essential tool to maximize efficiency and unlock critical insights about their real estate worldwide. I believe the momentum we saw in the second half of 2022 is carrying through to 2023 and sets the stage for another record-breaking year. At Matterport, efficiency is a key focus for us as it is for many other organizations facing the current economic challenges. We not only strive to improve the way we run our company, but also to support our customers in their efforts to tackle their most pressing business challenges. Our customers come from a range of industries, and many are just starting to discover the potential of our digital twin platform. That's why in the coming fiscal year, we are reinforcing our commitment to enhancing product and service adoption amongst our existing customer base. We aim to expand the ways in which our customers utilize our platform, enabling them to overcome cross-functional issues and gain new insights that will propel their businesses forward.

Here are 2 examples. Through the acquisition of BHT Studios last year, we recently introduced Digital Pro to provide real estate professionals with a simple all-in-one solution to market and sell properties with more speed and efficiency. We also partnered with companies like AWS Twin maker to help enterprise customers effectively manage their operations by seamlessly integrating IoT data into Matterport digital twins that are both photorealistic and dimensionally accurate. In simpler terms, Matterport is helping businesses and real estate firms save more time and money with their properties than ever. Later in the year, we will make property intelligence available to the public, a cutting-edge AI that can analyze any property or portfolio with speed and efficiency, producing tailored insights to meet the needs of any business. We have already begun collaborating with some customers such as Airbnb, which I will touch upon later.

Next, I'd like to discuss the great progress we made during the fourth quarter in more detail. Then I'll hand it over to J.D. Fay to discuss our financial results and outlook for 2023. We introduced the Pro 3 camera in September, which has revolutionized 3D capture for the built world, setting new benchmarks for speed, accuracy, versatility and fidelity, equipped with cutting-edge LiDAR technology and advanced onboard software, the Pro 3 offers exceptional performance in a compact and portable design. The Pro 3s impressive features were well received by our customers, leading to a 51% increase in product revenue from the previous quarter. The Pro 3 is just one aspect of our universal capture strategy, which allows us to create 3D digital twins from almost any capture device. This is because our solution is powered by Cortez, our AI-powered 3D reconstruction software that automatically generates thousands of digital twins every day with no humans in the propel. Companies choose Matterport because of our unique ability to deliver precision results with such incredible speed and efficiency. And because of Matterport turns buildings into data, our digital twins comprise so much more than photography. We have the data to unlock new information about building our space of any shape and size, making it available to our customers instantly from anywhere in the world.

One instance of our value-added insight was highlighted in Airbnb's 2022 winter release in November. Airbnb announced that it is using our property intelligence solution to analyze and verify a selection of Airbnb homes to confirm they meet accessibility standards for guests with mobility requirements. The new collection of listings is called the Adaptive category, showcasing listings that have step-free access to the home and to one or more bedrooms and bathrooms as well as other accessibility features. These property insights on Airbnb's platform are made possible through Matterport's AI-powered property intelligence technology. This proprietary technology automatically converts digital twins into valuable insights on a large scale, performing tasks such as identifying objects, including chairs or light fixtures, measuring door frame width, pathways, room size and much more. This technology will help companies improve their operational efficiency by allowing them to access essential insights and manage their properties from their digital twin from anywhere in the world.

During the quarter, we were thrilled to attend the AWS Reinvent 2022 Conference hosted by Amazon to jointly unveil our new solution with AWS TwinMaker. This integration allows enterprise clients to effortlessly integrate IoT data into visually immersive, dimensionally accurate Matterport digital twins. The new solution supports the digital transformation efforts of enterprise customers and provides a convenient and cost-effective method for optimizing building operations, enhancing production and improving equipment performance. The integration enables real-time remote monitoring, predictive maintenance, root cause analysis, virtual equipment design and virtual training. There is an immense opportunity for enterprise customers, particularly in the manufacturing and smart building sectors to leverage digital twins to gain deeper insights into their operations while increasing efficiency across the organization. And it didn't take long to catch on. Just last month, we announced that John Deere selected Matterport's digital twin platform and 3D capture technology to build a virtual operation center for remote management of over 60 facilities across North America, Europe and India. Matterport's high-fidelity digital twins enable John Deere's facilities and operations teams to remotely track assets, materials and project progress, land for site changes, monitor factory vehicles, integrate real-time IoT data streams and enable

a single source of truth for effective global remote collaboration. Collaboration can occur in real time or across working time zones within the Matterport digital twin to improve productivity and accelerate cycle times, all while reducing the need for costly site visits.

The digital transformation of the built world is just beginning, and our enterprise customers are quickly realizing the potential of our technology, and we are continuing to see significant expansion with our enterprise customers. And in the fourth quarter, nearly half of our subscription revenue came from industries outside of residential real estate and nearly 1/4 of the Fortune 1000 companies were using Matterport. Moving on to services. With the successful integration of BHT, we are extending our industry leadership with a more integrated, customer-focused approach to marketing properties online. Our new offering includes a comprehensive digital marketing solution that enhances our ability to promote property listings to their full potential. We call it Matterport Digital Pro. Introduced to the market last week, Digital Pro is the most innovative and affordable all-in-one property marketing solution available, offering professional grade, high-definition photos, a 2D floor plan, a 3D tour and a preview video for customers that's perfect for sharing on social media, all delivered within 1 to 2 business days. Everything is produced entirely from one digital twin in one appointment for one flat rate. Digital Pro is designed for agents to launch a standout at the listing presentation and use a more tech-forward approach to their marketing. Marketing and promoting real estate has never been easier and more comprehensive. The initial response to Digital Pro has been extremely encouraging, and we're just getting started.

Now before I hand it over to JD, I would like to bring attention to our inaugural ESG report, which, among many important aspects showcases our company's values and dedication to making every building, every space more valuable and accessible. We are driving the digitization of the built world and making it virtually accessible to everyone. At Matterport, creating a more accessible and equitable world is not just a goal, but it's at the core of our business model. We believe in making our 3D capture technology widely available to anyone with a smartphone to reach more people and break down barriers. This purpose is reflected in our workplace culture, where we have always strived to attract diverse talent, provide equitable career growth opportunities and create a welcoming and inclusive environment for all of our employees. Moreover, our digital twins have the potential to play a crucial role in reducing carbon footprint. This is truly inspiring. In 2021, our solution helped prevent the release of approximately 374 tons of CO2 into the atmosphere, which is the equivalent to the emissions of over 80,000 cars driven for a year straight. From this seminal report, it is clear that our digital twins hold tremendous power in combating carbon emissions and promoting sustainability. By facilitating remote operations and reducing the need for business travel, our platform is fast becoming a quantifiable testament to this. With continued efforts, our platform has the potential to play an important role in the fight against climate change and help businesses achieve their sustainability goals while saving time and money all along the way. I would now like to turn it over to J.D. to discuss our financial performance for the fourth quarter and the outlook for Q1 and the full year 2023.

James Daniel Fay - Matterport, Inc. - CFO

Thanks, RJ. We are pleased to deliver another record quarter for Matterport with total revenue of \$41.1 million, up 52% from the fourth quarter of 2021 and above our guidance range of \$39 million to \$41 million. The strength in our revenue was across subscription, services and product categories with subscription and product revenue hitting new records in the quarter. Subscription revenue rose to \$19.3 million in the quarter, which was up 17% from the year ago period and above the top end of our guidance of \$19 million to \$19.2 million. In addition, our annual recurring revenue grew to a record \$77.2 million. Of our record 701,000 subscribers at the end of the fourth quarter, we had 637,000 free subscribers and 64,000 paid subscribers. As I have noted on prior calls, subscribers to the Matterport service continued to increase their spend with us, and our net dollar expansion rate was 103% in Q4. This was down from 106% in the prior quarter. The sequential change was primarily due to small customers remaining cautious about their spending as macroeconomic uncertainty continued and customers in the U.S. residential real estate industry continued to face weakening industry trends in the quarter.

At the same time, we continued to see strong expansion with our enterprise customers in the fourth quarter, particularly driven by customers outside of residential real estate, for example, in retail, facilities management, insurance, construction and travel and hospitality. Notably, growth of subscription revenue from vertical markets outside of real estate from new and existing enterprise customers has continued to grow over the past several quarters. As a result, we now derive roughly 50% of our subscription revenue from non-real estate, up from approximately 1/3 in the year ago period. Our product revenue was \$13.6 million in the fourth quarter, more than double the year ago period and up 51% sequentially. This was primarily driven by robust customer demand for our new Pro 3 camera. Services revenue for the fourth quarter was \$8.3 million, a 122% increase year-over-year, driven primarily by growth in all of our services offerings. Our service offerings include digital content for marketing residential real

estate listings in the U.S., capture services, which rapidly captures our customers' physical spaces at scale with contracted certified Matterport technicians globally and other industry-specific and in-app offerings.

Moving on to gross margin. Our total non-GAAP gross margin for the fourth quarter was 36%, which was down sequentially from 48% in the prior quarter. The sequentially lower gross margin was primarily due to a write-down of the value of a portion of our Pro 2 camera inventory and related materials. We believe the better-than-expected demand for the Pro 3 camera has impacted the demand for Pro 2 cameras. Accordingly, we have determined that it was appropriate to reduce the value of the Pro 2 inventory. This expense was \$5 million in the fourth quarter. Excluding this expense, non-GAAP gross margin would have been 48%, which would have been consistent with our recent historical performance. Our subscription gross margin was 75%, improving from 72% in the prior quarter. We are beginning to see scale benefits that we've discussed in prior quarters as we better leverage our support functions and increase our processing and hosting efficiency of digital twins globally. Product gross margin was negative 14% in the fourth quarter as compared to negative 11% in the year ago quarter. Excluding the expense associated with Pro 2 inventory, product gross margin would have been positive 23% in the fourth quarter, up from 13% sequentially, driven by the strength in our Pro 3 camera sales.

Regarding operating expenses, research and development expenses were \$10.3 million, down \$2.1 million sequentially from Q3 or lower by 17%. This reduction in R&D spend reflects our commitment to operate more efficiently while still supporting innovation throughout the company. SG&A expenses for Q4 were \$33.2 million, down \$0.5 million sequentially from Q3 or lower by 2%. The decrease was primarily due to lower marketing campaign expenses. Accordingly, for the fourth quarter, non-GAAP net loss was \$26.6 million and non-GAAP loss per share was \$0.09 at the top end of our guidance range of a \$0.09 to \$0.11 loss. Weighted average share count was 289 million shares. We continue to focus on our path to profitability by carefully scrutinizing the operating expenses necessary to achieve profitability while realizing the sizable market opportunity in front of us. For example, our total operating expenses for the quarter declined by \$2.5 million sequentially or lower by 6%, and we held headcount flat at 590 people in Q4 compared to the prior quarter. The cost savings initiatives we implemented in the third quarter continue to yield benefits to our bottom line.

Moving on to our balance sheet, which remains strong. We ended the quarter with \$477 million in cash and investments, and we remain debt-free. We believe that we are more than fully funded to achieve our business plan. For full year 2022, we delivered a record total revenue of \$136.1 million. This was up 22% from the prior year as subscription services and product revenue each hit all-time highs. Full year non-GAAP gross margin was 45%, and our non-GAAP loss per share was \$0.41. Our record Q4 ARR and improving trends in subscription gross margin places the company in a strong position to deliver continued growth this year, while our declining losses are evidence of our progression down the path to profitability. Today, we are introducing financial guidance for the first quarter and full year 2023. We expect to deliver another record year for the company as we grow the top line and improve our loss per share. That said, we expect the macro headwinds we faced in 2022, mainly characterized by our smaller customers becoming more cautious with their spend will continue in 2023. In addition, the supply chain issues we experienced in 2022 have improved but are not completely resolved as we enter this year. Given these factors, we have widened our full year guidance range relative to prior years. We feel confident we can achieve our objectives because we have the right solutions to help our customers drive sales while saving their organization's time and money. In addition, if we see relief from the macro and supply chain uncertainties, we believe we are well positioned to outperform as we go through 2023.

For the first quarter, we expect total revenue to be in the range of \$34 million to \$36 million. We expect subscription revenue to be in the range of \$19.3 million to \$19.5 million. We expect the balance of revenue to be split roughly evenly between the services and product revenue lines. We anticipate first quarter non-GAAP loss per share to be in the range of \$0.09 to \$0.11. We expect full year 2023 total revenue to be in the range of \$153 million to \$169 million with full year 2023 subscription revenue expected to be in the range of \$84.5 million to \$86.5 million. For the full year of 2023, we expect a \$0.32 to \$0.36 non-GAAP loss per share, which would represent a significant improvement from 2022. We remain committed to our path to profitability as we execute on our plan to digitize the built world and drive efficiency across our organization. We are proud of the improvements we made over the course of the year, our first full year as a public company. That resulted in a full year non-GAAP loss per share of \$0.41, \$0.09 better than the midpoint of the guidance we provided at the beginning of 2022. As we enter 2023, we believe we can continue to drive efficient growth and expect our full year 2023 EPS loss to improve by up to 22% from last year's level. Now I would like to turn the call back over to R.J.

Raymond J. Pittman - *Matterport, Inc. - Chairman & CEO*

Thanks, J.D. Our record Q4 and 2022 results demonstrate the growing demand for our innovative solutions built around our digital twin platform. Our platform is becoming a must-have tool to help companies deliver measurable cost savings, operating efficiencies and critical productivity gains in an environment that is requiring companies across end markets to become more efficient. Importantly, we have embarked on the next phase of our mission by launching our first value-added services on top of the Matterport digital twin, which are powered by AI and trained on more than 90 million digital twins and 28 billion square feet of space under management on our platform. Gartner expects global revenue generated from digital twin technology and related services to sort to more than \$150 billion by 2030, a tremendous leap from \$9 billion in 2021. Matterport has the world's largest subscriber base for digital twins. Our cutting-edge platform powered by Cortex AI has the capacity to scale significantly to automatically generate a digital twin for as many of the 4 billion buildings in the world that we can reach. With rapid innovation and market expansion, we will continue leading the category we created more than a decade ago, well into the next decade ahead. Thank you for joining us today. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) Today's first question comes from Elizabeth Porter with Morgan Stanley.

Elizabeth Mary Elliott Porter - *Morgan Stanley, Research Division - VP of Equity Research*

Great. I first want to dig in on just the subscription revenue guidance. I remember in the past that just the weakness in camera sales had weighed on subscription revenue for fiscal '22. And now that it looks like camera sales are seeing a recovery kind of what limits kind of the flow-through and attach to having better subscription revenue in 2023 and then related kind of when can we start to think about some of the enterprise motion starting to drive some upside in the subscription revenue as well?

James Daniel Fay - *Matterport, Inc. - CFO*

You're right. Our camera sales generate paying subscribers and actually high -- generally high average subscription revenue subscribers as well. And so we're pleased, of course, that Q4 was a strong quarter for camera sales. And then as you noted, that will flow through into subscription revenue. That's not the only way, of course, for subscribers to get onto the platform. They can also do so through our capture services -- service offering, as we've talked about as well as using some of the other capture devices put -- so all of these ways are inroads into the subscription platform and ultimately into subscription revenue. So we're starting to see that relief in the supply chain happen. That's generating volume in camera sales, and I think that will flow through in terms of steady growth in the subscription revenue line. Now the last point is, you may remember in our Q3 call, we released the Enterprise Essentials package, which is a new pricing and service offering or subscription offering for large customers, and it's more value-based pricing, targeted at the various vertical markets that are some of the major growth drivers of the business right now. And we've already started to close contracts with this new pricing and feature set. So I anticipate we'll start to see some of that flow through this year as well. So all of these things are coming together, I think, for 2023 as we sort of go through the year. And therefore, I'm kind of optimistic that we'll start to see some acceleration as we get towards the back half of the year.

Elizabeth Mary Elliott Porter - *Morgan Stanley, Research Division - VP of Equity Research*

Got it. And then just as a follow-up, I wanted to touch on the NRR. Are you seeing SMBs churn off the platform? Or is it just about less expansion? And if you could help us understand just the components between expansion, downselling churn impacting NRR for the most recent quarter and how you think about the trend into 2023, that would be great.

James Daniel Fay - Matterport, Inc. - CFO

Yes, sure. So in the small and medium business cohort, the churn rates have remained largely steady with our historical experience. So nothing really changing there. And so that leaves essentially the expansion. And so we're seeing those smaller customers being more cautious about the trading up to higher plans, perhaps even ahead of some of their business activity and instead looking at filling up the planned capacity they have before they trade up. And so that's kind of the bulk of the kind of trends we're seeing with the muted net dollar expansion rate or NDR. And then conversely, we continue to see very healthy trends in the enterprise cohort, and that's flowing through to the mix of subscription revenue, which is now nearly 40% enterprise versus small and medium business, also continuing to become more balanced as the quarters go on. So those differences between small businesses and enterprises continue that we saw them for most of last year, and we're seeing them as we enter and continue through the first quarter too. And I expect that to largely continue through the course of this year unless something changes in the kind of macro environment. And right now, we're -- what we see is that the macro environment that we've been experiencing over the last 6 months is going to continue the rest of this year

Operator

And our next question today comes from Brent Raceland with Piper Sandler.

Mauro Molina

This is Mauro jumping on for Brent. So the first question I have is really around budget prioritization. As your customers have maybe taken a closer look at budgets going into the year, where is Matterport shaking out in terms of budget prioritization going into 2023? And how are your customers thinking about the mission criticality of the Matterport platform? And then I have one follow-up.

Raymond J. Pittman - Matterport, Inc. - Chairman & CEO

Sure. I'll take that and jump in. And thanks for the question. And it really depends on the markets that we're talking about, right, at the center of recent conversation and certainly a focus for the company is enterprise. And in the enterprise, everybody is looking at their OpEx by quarter and maybe even by month, quite frankly, in looking for ways to create efficiencies in their business more than ever. We really saw that development over the course of 2022 really take off. And so what we've been quick to do is to help our enterprise customers and prospective customers understand the value proposition of Matterport, which is pretty straightforward. You create a digital twin of your facility, your manufacturing unit or a collection of retail chain, and we dramatically reduced the cost of business travel and the time that goes into groups of people that need to access those properties physically to do their building and space analysis, inspections, walk-throughs and the like. This has been a huge boost and a huge improvement in the enterprise for customers that are looking to cut costs out of their organization, but that still have dependencies on their physical footprint as part of their core business, right? And those examples I gave run right down the center of that fairway. And so we saw great success as companies were reevaluating what investments they're going to make, we're now getting positioned as a productivity driver and a cost saver for these organizations, getting them just on to the platform initially.

Â In other markets, like residential real estate, there's no question with interest rates in the economy where it is, that, that category has felt the pressure. For the last 10 years, the value proposition for the real estate agent, the homeowner, the home buyer, the home seller has been if you put a digital twin alongside your marketing activities for a given property, whether you're selling it or renting it, homes stay on the market, property staying on the market for much less time and sell or rent for a higher price, right? We have been proving that statistically year in and year out over the last decade. And so while the real estate market might be soft, there are still houses that are sitting out there looking for buyers. And Matterport speeds up that transaction, creates buyer confidence by bringing more people into an open house in virtual form, giving them enough information to make a purchase decision even without having to set foot in the property. And as we continue to push that value proposition even into challenged markets like real estate, we still see an opportunity for us to grow our business across all of these different verticals.

Mauro Molina

Got it. And then just second question is around -- I saw that you disclosed the overall net retention rate. I think it was around 13% for the quarter. Is there a net retention number that you track or a range that we can think about for NRR enterprise customers or even for customers outside of residential real estate?

Michael J. Knapp - Matterport, Inc. - VP & Head of IR

Yes. So while we don't disclose additional numbers around net dollar retention or the dollar expansion rate, what we have talked about over the last several quarters is that there is a bit of separation between the enterprise and the small business customer in their respective NDRs. And that separation started about a year ago. And prior to that, it was -- there really wasn't a difference. But it did began about a year ago. It's sort of continued fairly steadily and enterprise customers are expanding at a much higher rate than the small business customer these days. And that's been fairly steady for the last 4 quarters.

Operator

And our next question today comes from Yun Kim with Loop Capital Markets.

Yun Suk Kim - Loop Capital Markets LLC, Research Division - MD

Just J.D., in your prepared remarks, you mentioned that you plan to focus more on existing customer base this year. Can you elaborate on that a bit? I am assuming that you're targeting the enterprise business with additional products and services, is there more package or bundle your plan on introducing maybe more vertical focus? Is that kind of what you're alluding to? And then also, if you do focus on existing customers, does that mean that we should expect to see slower growth in the certain metrics, such as user count growth and even space under management?

James Daniel Fay - Matterport, Inc. - CFO

Thank you. We're not focusing on enterprise customers to the exclusion of the new customers. So -- so apologies if that was unclear in their prepared remarks. And we've got, I think, an equal focus on those types of cohorts. What I'm discussing is we're finding that the enterprises are, particularly in the vertical markets outside of residential real estate, are looking for ways to save money and make their businesses much more operationally efficient as well as meet some of their ESG goals. And this traction is something that we've been able to build on with new services, particularly some of the enterprise essentials we launched in the latter part of the third quarter. And that's that -- the reception by those customers has been great. And so we're going to double down on that effectively. And in addition, we've essentially ramped our sales and marketing groups and aligned those campaigns and resources. That was a big investment for us through most of last year. And by the Q4 results, they have come online, and they are productive hitting impressive attainment rates. And so we're going to essentially double down on all of those elements that are working. But at the same time, you will see new services come out later this year. RJ mentioned Property Intelligence and the first of those offerings, namely that, which is helping Airbnb and their accessibility and adapted categories for short-term rentals. So there's more to come as well. So it's going to be a pack year, but I think equal weight on both existing and new customers.

Yun Suk Kim - Loop Capital Markets LLC, Research Division - MD

Okay. And it's been several quarters since it's been a while since we talked about the free capture app on iPhone and Android, those free apps on the smartphones. Clearly, these investments do take some time to generate return. So maybe it's a good time now with the ramp of the enterprise and then also the Pro 3 are selling pretty well that gives you Aston monetization opportunity. If you can give us some update on your strategy around these 3 downloads, both in the near term and long term.

Raymond J. Pittman - Matterport, Inc. - Chairman & CEO

Sure. And thanks for the question. Firstly, the freemium offering, the ability to scan a space of any kind, a home, an office, even a factory floor using just the smartphone in your pocket is a powerful way to evaluate what Matterport has to offer. And as we discussed over a year or so ago, as this product really took hold was not just for the long tail of residential real estate and putting a digital twin in the hands of every homeowner or a real estate agent, but actually connecting with the enterprise and mid-market companies that now had a way to evaluate our technology without using one of our specialty cameras to get started. And that was an unlock and continues to be an unlock that fills the pipeline for mid-market and enterprise opportunities every day. And it is a low-touch, low-cost way to get very valuable customers, including Fortune 1000 customers into our pipeline and into our customer base. So that's number one. And we continue to expect for the near term to lean into that even further for 2 reasons. Not only do we have an opportunity to grab those new accounts that come by way of smartphone capture and turn them potentially into an enterprise, we have one of the highest conversion rates where these customers are organically converting from a free trial to a paid subscription account, whether that's a starter tier or a pro tier or a business tier, all without sales and marketing or human intervention as we like to say. And that's the really efficient part of the business for us because it helps us build not just evaluators but paying customers at scale.Â

And finally, we are not done with unlocking the power of Matterport and the digital twin in residential real estate. Despite the pressures globally on that category today, there is enormous growth that lies ahead. And with the introduction of digital Pro and the continued advancements in technology in smartphone capture, we are covering that market from both ends. And residential real estate still represents the vast majority of the properties that make up the built world today. So it's always going to be a large opportunity market for us. And that in the long term represents huge upside for us. So we're going to continue to strengthen our offering from the smartphone in your pocket to the Pro 2 and of course, the new flagship Pro 3 to ensure that every property has a convenient and suitable entry point into creating their first digital twin and minimizing the friction of adoption for SMBs and enterprises worldwide.

Operator

And our next question today comes from Bhavin Shah with Deutsche Bank.

Bhavin S. Shah - Deutsche Bank AG, Research Division - Research Analyst

J.D., can you just maybe elaborate a little bit more on your FY '23 gravity outlook? I mean you noted it's a pretty wide range. What are some of the assumptions that get you to the high end of the range versus the low end? How much of it is the one supply chain on product versus other factors that might impact either service or subcu revenue?

James Daniel Fay - Matterport, Inc. - CFO

So the guidance for the year in terms of kind of breaking it down, it's first on the subscription line, it's fairly steady growth rates that we've seen over the last 2 years, continuing into this year kind of to the conversation we had a bit earlier in this call, too. So that's fairly steady. I think there is an opportunity for those to increase those growth rates in subscription to increase as we see strength in, I think, the enterprise cohort and then of course, if the small business customer gains a bit more confidence. I think it will come back a bit stronger. In the services revenue line item, we will see a full year contribution from our new acquired business, VG Studios as well as we believe, some traction from the new digital Pro offering that RJ talked about a bit earlier. And we're also starting, of course, from a seasonal low point in terms of the capturing activity in the residential real estate space. So that's essentially the assumptions in the growth line for services. And then finally, with products, year-over-year total is roughly flat because we, of course, had some supply chain constraints, as we've talked about, but then we expect those to moderate as we go through the rest of this year. And in doing so, there is an opportunity for outperformance in that line item as well. And so those are the kind of going-in assumptions. And as a result, I think that the guidance is fairly reasonable. And it kind of demonstrates the kind of continued growth trends like we've seen in the most recent quarters, so consistent macro also.Â And then finally, the outperformance can again come from continued growth from those enterprise customers, along with some of the new service offerings, such as Digital Pro and if we see the small and medium business kind of return to growth as we go through the year.

Bhavin S. Shah - Deutsche Bank AG, Research Division - Research Analyst

Super helpful detail there. Just maybe a little bit on the expense side. Can you just maybe talk about where you guys are focused in terms of driving lender efficiencies with OpEx in '23? And how does that maybe compared to the other areas that you guys are focused on this year in terms of investing into the long-term opportunity?

Raymond J. Pittman - Matterport, Inc. - Chairman & CEO

Sure. And J.D., maybe I'll take just the top of it, you take the bottom part of that question. At the highest level, one of the things that we're doing is really focusing on productivity. As J.D. talked about a little bit earlier, 2022 was a build year in many respects as we were fleet up our sales and marketing organizations to meet the capacity of the growing demand in mid-market and enterprise and the large-scale Fortune 1000 customers we're bringing on to the platform. And we're coming into the year with full strength. So we anticipate doing much more with the organization we have, right, being able to drive up more revenue with less cost attached to it because we have the momentum and the fleet up full working force ready to go. And we're going to continue in R&D, product development and across the road map, prioritizing deployments and product launches that are specifically geared towards accelerating adoption, which is ultimately accelerating revenue growth as well. So the entire road map now as well as the sales and marketing team are all in lockstep alignment around that effort to maximize our efficiency in markets and to maximize our ambitions around driving adoption and getting major market share. So as we do that, we're going to be pushing that top line up with even greater efficiency, and we like to see that. J.D. can talk about what we're doing on the cost side as well to continue to take costs out of the organization while we're growing and accelerating.

James Daniel Fay - Matterport, Inc. - CFO

Yes, that's right. And on a year-over-year basis, we'd expect operating expenses to be roughly flat as well. Our head count should be roughly flat. We're at 590 people today, having reduced our headcount a bit last year already. We are scrutinizing all of our new program investments. We just finished a very large one, which was the creation and launch of the Pro 3 camera in the enterprise Essentials platform. And so we can turn our attention to other programs, but that large dedicated program has rolled off now. We're driving efficiencies and marketing spend. We're very carefully analyzing all of our campaign and other initiatives there and looking for that optimal ROI in marketing spend. And then finally, we're improving our back office systems. We're making some very targeted investments to create automation and scalability so that we can drive more throughput through the business and through the income statement with lower essentially manual effort. So there's a whole variety of efficiency programs going out of the company on this drive to profitability.

Operator

Thank you. Ladies and gentlemen, this concludes today's question-and-answer session. I'd like to turn the conference back over to Mike now for closing remarks.

Michael J. Knapp - Matterport, Inc. - VP & Head of IR

Great. Well, thanks, everyone, for joining us today. As always, we appreciate your interest in Matterport, and we look forward to speaking with you on our next earnings call. Thanks, and goodbye.

Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.

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