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Matterport, Inc. (MTTR)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello. Welcome to the Matterport, Inc. Fiscal 2022 First Quarter Results Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, today's event is being recorded.

I would now like to turn the conference over to Soohwan Kim, Vice President of Investor Relations. Mr. Kim, please go ahead.

Soohwan Kim

Vice President-Investor Relations, 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 call. 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 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 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

deck, 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 excited to share our first quarter financial results with you. We had another strong quarter delivering on our product strategy, market expansion and key results.

Total revenue for the quarter was \$28.5 million, \$1 million above the top end of guidance. And we delivered over \$17 million in subscription revenue, up 24% from a year ago. We reported strong operating metrics with our subscriber base growing 70% to over 562,000 subscribers with Spaces Under Management increasing 49% to 7.3 million spaces. We believe we are still in the early stages of capturing this expansive market opportunity. And our diverse enterprise end markets continue to thrive amidst the challenges of today's macro environment.

The number of industry leading companies that are embedding Matterport into their daily workflows to manage their real estate assets online is bigger than ever and expanding internationally. In fact, 22% of the Fortune 1000 uses Matterport today. These businesses are discovering that Matterport reduces operating expenses with every digital twin, critical to companies everywhere and especially so in a constrained global economy.

With each quarter, our total addressable market continues to grow. Real estate is the largest asset class in the world now valued at an estimated \$327 trillion, up from \$230 trillion in recent years, driven by rising property values and more than 15,000 new buildings completed every day. The built world is a growing market ready for digitization. Matterport is the clear market leader with over 7 million digital twins for buildings in 177 countries comprising more than 22 billion square feet of digitized space.

In Cortex, our AI software engine automatically generates thousands more digital twins every day. This software breakthrough enabled Matterport to create a new level of precision and fidelity for digital twins that even the most demanding enterprises and building operators can trust.

Our unique technology delivers the gold standard for dimensionally accurate, photorealistic 3D digital twins that now anyone can create with just the smartphone in their pocket. Our rapid pace of innovation continues to lead the industry aimed at driving rapid adoption and ease of use for customers working with any type of building or space. We are in the early stages of real estate's digital transformation and Matterport is leading the way.

We have a saying at Matterport, come for the digital twin, stay for the platform, because once you capture a digital twin of your space, our platform delivers many value added services, tools, and property insights that provide immediate cost savings and operational efficiencies for the space.

Data driven decisions in remote facilities management, virtual inspections and group collaboration in a virtual property save customers significant time and money. In a tight labor market with rising rates and high commodity prices, it makes more sense than ever to go digital with your real property assets. It's never been easier and more cost effective to create a digital twin. In fact, many customers choose the easy button, with Matterport Capture Services to conveniently schedule a technician to professionally capture your property with our online service.

Over the past several years, Matterport has been steadily expanding its market opportunity beyond US residential real estate to include additional growth verticals such as commercial real estate, travel and hospitality, architecture, engineering and construction, industrials, and the public sector.

Our diverse end markets enable Matterport to grow steadily amidst the challenging global economy and as the world starts to emerge from the pandemic, the return to business and personal travel has sharply boosted the outlook for the travel and hospitality industry in the second half of the year.

Matterport has become an invaluable solution for hotels, nightly rentals and even the airlines themselves to promote accommodations and streamline air travel. A recent innovation, the Axis motorized mount works together with any smartphone to let property managers, Airbnb hosts and landlords increase bookings by more than 12% when they provide customers with an accurate virtual tour of their properties to better plan their stay. While property managers get a more convenient way to manage their properties online for virtual space planning, inspections, operations and maintenance.

We see comparable traction and impact across our other end markets. Our enterprise customers are becoming more confident in the power of our digital twins and are scaling with Matterport and bringing new spaces online every day. This is fueled by the volume of real property essential to running these global corporations. Customers like VMware, Colliers, HealthTrust, Reckitt, Perry Ellis and Orangetheory, all recognize the power of digitization and have recently joined our platform.

Next, I'd like to provide an update to three strategic initiatives that demonstrate how our customers are incorporating Matterport into their enterprise workflows to achieve compelling new operating efficiencies. These are capture, platform and our geo expansion efforts. Then I'll hand the call over to JD Fay to discuss our financial results for the quarter in more detail.

Capture Ubiquity is a critical initiative for the company. It was design to enable precision 3D capture from any type of camera for any type of space. Today customers can choose from a broad array of offerings to best suit their needs, starting with the range of powerful capture devices, including the Matterport Pro2 camera and a variety of third-party devices to a one click on demand professional service and an easy DIY solution using just a smartphone in their pocket.

Smartphone capture is an important part of our go-to-market strategy, and it continues to drive adoption across SMB, mid-market and enterprise. Many of our Fortune 1000 customers have embraced smartphone capture to quickly value add our solution with a simple free software download capable of digitizing an entire building.

Last quarter, we introduced Matterport Axis to make smartphone capture even easier, faster and more precise. Axis is a revolutionary motorized mount that works with a smartphone to capture 3D digital twins of any physical space. Just place a smartphone in the cradle and our software handles the rest. Matterport Axis became available in April and quickly sold through our initial allocations worldwide, early days but we've seen very strong demand and an enthusiastic response from our customers so far.

Matterport Axis is great for professionals, small business and even bigger jobs. Enterprise companies across our verticals are turning to access to deploy an easy, cost effective way to capture high fidelity digital twins at multiple building locations with their own employees using their own smartphones. And customers love it.

Enbrel is a top four insurance claims adjusting firm in the United States. Enbrel recently deployed Matterport Axis to quickly document insurance claims using the power of our digital twin. Adjusters reduced their time spends in

the field improving total claim cycle time by 15% and increased new customer acquisition by 200% with the convenience of Matterport Axis in their own smartphone. Adjusters are able to streamline complex claims when multiple digital twins are required. As a result, Enbrel completes their assessments faster and with greater accuracy and consistency.

Atkinson McLeod, an independent London based real estate group specializing in sales, rentals and property management, is deploying Matterport Axis to their employees and agents to quickly create a high fidelity digital twin for each of their listings and publish it online for their clients in just minutes. Atkinson McLeod is able to reduce in-person visits by 50% because clients are able to determine in advance whether the home was right for them by exploring the digital twin as often as they like any time, day or night. This accelerates the process to reach highly qualified buyers, while doubling the visitors to the online listing.

Next, I'd like to provide an update on our platform strategy. Matterport is the leading spatial data platform that helps companies bring their buildings online to design, build, promote and manage properties. Our 3D capture technology turns buildings into data, enabling partners and third party developers to extend the power of our digital twin with integrations and vertical market add-ons like 2D, floor plans, space planning tools, insurance claims, management tools and more. The power of our platform enables customers to get more out of their digital twins using advanced technologies from some of the best companies in the industry. An important add-on we introduced to the platform last year is Matterport BIM file. To open Matterport's platform to the entire design, build and operate community.

Building information modeling or BIM brings together all of the information about every component of a building into one place. Project stakeholders can include information about behavior, performance, materials, costs and more all within the BIM model.

With the introduction of Matterport BIM file last year, we enabled teams to jump start their BIM projects in half the time at a fraction of the conventional cost of surveying and creating as-built documentation, all while decreasing BIM modeling costs. Importing Matterport BIM files into Autodesk Construction Cloud, Procore and other software applications is a snap, making it faster, easier and more cost effective than ever to visualize and utilize as-built designs.

Retail planners, architects, real estate and construction managers have told us how excited they are to use the Matterport BIM file to dramatically speed up the time required to plan, measure and renovate their existing facilities.

In Q1, we introduced BIM for Enterprise. The new offering is designed to meet the needs of enterprise customers that are looking to take BIM data a step further to produce analytics and key insights about a building in a business-friendly reporting format. BIM for Enterprise is designed to unlock data driven business decisions and help teams better understand the operating environment in a building or across a group of buildings.

For example, with the tap of a button, facilities managers can quickly locate and determine how many fluorescent lights exist in an office that need to be retrofitted with LED bulbs. To enhance the offering, our Capture Services team is also developing specialized capture processes to ensure the critical assets unique to each facility are digitized with maximum precision for future analysis in the digital realm. BIM for Enterprise is your digital backbone for the built environment.

The Warehouse Group is the largest retailer in New Zealand, with more than 100 stores, currently piloting Matterport and BIM for Enterprise to bring spatial intelligence to the forefront of their retail planning business.

Using Matterport, they're able to identify every centimeter of shelf space and use location intelligence to plan and maximize product placement and store aisle layouts with greater precision, speed and efficiency. This, in turn, activates data driven decision-making to improve sales, layouts and workforce efficiency.

Matterport solutions are specifically designed to help our customers reach their business goals. BIM for Enterprise allows retailers like the Warehouse Group to quickly analyze and better utilize every square foot of the store to maximize sales and improve operating efficiencies.

Finally, I'd like to share an update on the progress we're making with geo expansion. Matterport is a global company with digital twins in 177 countries around the world. The built world is widely distributed and the largest property markets can be found in the US, Asia and Europe. And these markets are steadily maturing. All three regions represent significant multibillion dollar market opportunities for digitization and we have successfully entered the top markets with a proven playbook that has been honed over the years.

As part of our growth plan, we have increased our focus and execution in all three regions to more deliberately capture the growth opportunity in the international market. We are developing a meaningful presence in some of the largest international markets in the world, including Singapore, Japan, China and Brazil, along with much of Western Europe.

Our enterprise business includes many multinational customers that look to standardize on Matterport for all their locations around the world, extending our global reach every quarter.

Here are three examples from around the globe. Damen Shipyards Group is a Dutch owned shipbuilding company with operations in 120 countries. After the decision was made to standardize on Matterport, the workflow division deployed Matterport at its Netherlands headquarters and major shipyards in China, Turkey and Vietnam. With access to a 3D space in the planning stage, customers can examine the layout and placement of equipment and request modifications if desired. Once the ship design is finalized, Damen shares its digital twin internally with their service department, enabling them to gain a better understanding of the vessel when it is completed and delivered.

Finally, Damen is using Matterport to build a 3D archive of all of the projects it has delivered to customers since the solutions deployed. The archive is particularly useful for supporting periodic vessel overhauls, equipment upgrades and knowledge transfer when longtime employees retire or leave the company.

China is the largest property market in the world, with more than 3 billion commercial and residential spaces ready to be digitized. During the quarter, we announced that Midland Holdings, one of the largest residential real estate brokerages in Greater China, will become the first brokerage in the region to use Matterport digital twins for its entire portfolio of properties.

Midland Holdings was the first publicly listed real estate group in Hong Kong, and they have over 600 branches and nearly 8,000 employees. Using Matterport the company will provide its customers with immersive digital twins to better explore and purchase homes across the network of properties in China, Hong Kong and Macau, while also helping their employees realize significant operational improvements and cost savings with every listing.

Lastly, Brazil is home to the largest property market in South America and also one of the largest in the world with more than 500 million physical spaces. During the first quarter, we expanded our presence in the Brazilian market with two of the top industry partners to bring Matterport to the enterprise market for architecture, engineering and construction.

Guandalini Posicionamento is a leading technology distributor with a sales network extending across 85% of Brazil. PARS part of the Sonda Group is the largest IT services network in Latin America, representing companies such as Adobe and Autodesk in Brazil. These partners are capable of driving scaled adoption across the country, while helping Matterport reach new customers and expand our business across industries in this pivotal market.

Matterport Axis, BIM for Enterprise and are expanding global business are the results of our disciplined growth plan and focused execution. We are off to a great start in 2022 and I look forward to updating you throughout the year.

I will now turn it over to JD Fay, who will discuss our financial performance for the first quarter of 2022.

James D. Fay

Chief Financial Officer, Matterport, Inc.

Thank you, RJ. I am delighted to report that our Q1 was another solid quarter for Matterport, delivering a record first quarter revenue of \$28.5 million. This is \$1 million above the top end of our guidance range for the quarter. We delivered record subscription revenue of \$17.1 million, up 24% from the year ago quarter.

In addition, our annual recurring revenue grew to a record \$68.6 million for the quarter. The growth of subscription revenue results in more of our revenue becoming recurring with high gross margins. Subscription non-GAAP gross margin was 75% in the quarter, which was more than 2,400 basis points higher than the corporate gross margin this quarter. We had another outstanding quarter of customer acquisition with total subscribers increasing 70% year-over-year to a record 562,000.

At the end of the first quarter, we had 504,000 free subscribers and 58,000 paid subscribers. Subscription revenue grew to 60% of total revenue in the first quarter, compared to 51% in the year ago period. Subscriptions are core to our growth strategy and we leverage the other revenue lines, product services and license to continue to build subscribers and subscription revenue over time.

Our subscribers continue to increase their spend with us as well. Our net dollar expansion rate was 107% in Q1. We saw exceptionally strong expansion with our enterprise customers in the first quarter. On a combined basis, this strength was largely offset by unusually low expansion in our small and medium business customers in the first-half of the quarter. The small and medium business customer cohort, which started the year off tentatively influenced by volatility in the macroeconomic environment, recovered to historical trends by the end of the quarter.

License revenue was less than \$100,000 in the quarter as we have moved another solution to the subscription revenue line. I had previously discussed that our application programming interface and software development kits enabling Matterport data to be integrated into customers' enterprise applications were presented as license revenue.

Our strategy with licensing involves establishing product market fit with Lighthouse customers and then adjusting the go-to-market approach to offer the solution on a subscription basis. We are pleased that for the second year in a row, we have been able to execute this strategy successfully.

Now offering enterprises, API-SDK integration as a subscription service beginning in the first quarter. Our product revenue was \$7.4 million in the quarter compared to \$8.2 million in the year ago period. While the business

continues to be constrained by the supply chain challenges that we have been highlighting for the past couple of quarters, we were still able to deliver a 12% sequential increase in product revenue from Q4.

We also ended the first quarter with a near-record backlog of open orders. The demand for our high definition commercial grade Pro2 cameras remains very strong, much higher than we can supply. For the go forward periods, we are working to mitigate the impact of supply constraints for the Pro2 camera with not only our procurement efforts, but also the launch of Matterport Axis and showing customers how to use the phone in their pocket with this inexpensive motor mounts.

We are also elevating our Capture Services offering with both enterprises and small customers to enable them to quickly and cost effectively capture their spaces even without purchasing a device. Accordingly, services revenue for the first quarter was \$4 million, a 48% increase year on year.

Capture Services continues to see strong growth as enterprise customers are beginning to take full advantage of this offering. Enterprise customers can get onto our platform quickly and at scale leveraging the existing installed base of service providers who already own Pro2 and other compatible cameras.

Capture Services also allows us to provide end-to-end solutions to large enterprises, including customization of Matterport spaces, like the Warehouse Group in New Zealand, RJ referenced earlier. In-app purchases, which provide our customers additional digital assets, such as schematic floor plans and Scan-to-BIM files, also continue to contribute strong sequential growth in services revenue.

Moving on to gross margin, our total non-GAAP gross margin for the first quarter was 51%. While subscription margin remains relatively stable, quarterly volatility at the aggregate level comes largely from product revenue, as well as the magnitude of extremely high margin, but episodic license transactions.

Our subscription gross margin was 75%, consistent with the prior year's gross margin. Subscription gross margin remains strong as we continue to make enhancements to our technology platform, while we grow our Spaces Under Management. As we have noted before, we expect subscription gross margin to vary by 100 to 200 basis points from quarter-to-quarter as we continue to invest in building out our subscription platform.

Product gross margin was 2% as compared to 40% a year ago. As we have discussed in our recent conference calls, product gross margin continues to be impacted by higher costs to lock in supply, as well as added freight costs to expedite materials for production.

On a sequential basis, however, we were able to improve margin by 1,300 basis points. This was primarily due to better overhead cost recoveries on higher volume shipments in the quarter.

Reviewing non-GAAP operating expenses in Q1, research and development expenses were \$12.1 million, up from \$5.9 million in the prior year period. The spending level was as planned and is primarily attributable to investments in head count to increase our product development capabilities and throughput.

SG&A expenses were \$29.5 million as compared to \$12.6 million a year ago. The increase was primarily due to investments in sales and marketing, which were also part of our growth plan. We continue to invest in global selling and marketing capacity to drive further growth. Investments in these areas are expected to begin bearing fruit in the second-half of this year.

Non-GAAP net loss was \$27.9 million and diluted non-GAAP loss per share was \$0.10 for the quarter, better than our guidance range of a \$0.13 to \$0.15 loss. Weighted average share count was roughly 275 million shares, slightly below the 277 million shares we provided in our guidance. There were three non-recurring events that drove the changes in our share count during Q1.

First, we called 2 million warrants for redemption, raising an additional \$28 million. This represents the January portion of the \$104 million in total warrant proceeds to the company, which stretched over Q4 and Q1. Second, we issued 21.5 million earn-out shares on February 1. We issued fewer shares to employees than granted as we elected the net settlement method of this portion of the earn-out share issuance. And third, we net settled our vested restricted stock release in Q1 for employees. Under the net settlement method, we paid \$33 million for the employee withholding taxes instead of selling those shares on the open market, reducing the total expected dilution relating to these issuances by 1.2% or 3.2 million shares.

Moving on to our balance sheet, we ended the quarter with \$600 million in cash and investments and we do not have any debt. Our exceptionally strong balance sheet is a valuable asset as we evaluate and make investments, while continuing to be deliberate with capital allocations to further strengthen our technology and market leading positions.

Today, we are introducing financial guidance for the second quarter and reiterating full year 2022 financial guidance. While there is a high level of macroeconomic uncertainty as well as the continuing impact of supply chain challenges, we are maintaining our full year guidance from last quarter. We continue to expect full year 2022 total revenue to be in the range of \$125 million to \$135 million. We continue to expect subscription revenue to be in the range of \$80 million to \$82 million.

For the second quarter, we expect total revenue to be in the range of \$28.5 million to \$30.5 million. We expect subscription revenue to be in the range of \$18 million to \$18.3 million. The balance of our revenue forecast is comprised roughly evenly between product revenue on the one hand and services and license revenue on the other.

Consistent with our investment plans, we expect second quarter non-GAAP loss per share to be in the range of \$0.13 to \$0.15. License revenue is expected to be approximately \$400,000 per quarter for the remainder of 2022.

As noted on previous earnings calls, license revenue can be lumpy from quarter-to-quarter, depending on the timing of completed transactions and any associated implementation work that we must perform to recognize revenue.

I'm pleased to report that we have a new seven-figure contract against which we are working to deliver this year. We believe that we are on track for these deliveries. Accordingly, our expectation is we will be able to recognize revenue from this contract over the next three quarters.

Regarding non-GAAP earnings per share, we continue to expect a \$0.47 to \$0.52 loss for the full year of 2022. Certain projects planned for the first quarter have moved to later in the year, but our full year OpEx is expected to be unchanged overall.

We have recently made considerable investments in building a necessary team to position us for future growth. We expect that the growth in OpEx investment spend will moderate in the second half of this year as we begin to see returns on those investments. And we continue to monitor the productivity of all our growth investments to allocate our capital prudently.

While we continue to focus on top-line growth, we have a robust high margin subscription business that has allowed us to operate profitably in the past. This gives us confidence in the long-term strength of this business today.

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

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

Thank you, JD. The last 12 months of the company have been very productive as we delivered on our plan to scale operations for the next stage of growth. We have outperformed our timeline to achieve increased capacity and global reach for our business. We've raised significant capital in the public markets to position the company for long-term growth and profitability with a considerable scale advantage. We have invested in the most important asset of our business, our team.

We have sharpened our technology advantage with breakthrough innovations like Matterport Axis, BIM for Enterprise, our spatial data platform and much more. We are disciplined capital allocators and our operating plan for 2022 will enable us to stay focused on delivering for the business and helping our customers win.

The built world continues to modernize through pivotal technology investments. We have heard from our customers over the years that rain or shine in all market conditions technology led transformations are critical to the success of the property industry. Our cloud software solution helps businesses, property managers and building owners create value and reduce the operating costs of the world's most valued asset during a time when cost savings and capital preservation matter most.

The path to transformative change is not a straight line, and Matterport is helping companies get there faster than ever before. Our success will continue to be measured in the years and decades ahead as we lead the digital transformation of the built world. I'd like to thank our investors for joining us on this exciting journey.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, thank you. [Operator Instructions] And the first question comes from John Walsh with Credit Suisse.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, good afternoon and nice start to the year.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Thanks, John.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Thanks, John.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

I guess the, the first question is around. You know, it was nice to see the paid subscriber number accelerate here on a sequential basis, the rate of change. So, can you talk a little bit more about that? You highlighted a lot of new verticals in your prepared remarks. But, you know, is this coming from kind of the core real estate business or is there a difference between that and kind of some of these new verticals?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. I'll start. And JD, please feel free to add in as well. There's been some very market progress in our expanding end markets without question. And, one of the areas that I repeat and reiterate on all of these calls is our intense focus on the enterprise. And the enterprise is really continuing to bear fruit.

This is where we put a pointed investments in increasing our capacity, increasing our operations, specifically in the go-to-market functions, the sales and marketing functions that have been making great strides and great inroads in not only bringing on new business in all of these categories across the enterprise, but also seeing promising expansion and re-upping with our existing customers as well. And so it's really, you know, putting even further into balance the business operation as it continues to diversify from, you know, a very dominant share of our business coming from residential real estate, now evening out every quarter into the enterprise, into commercial real estate, into manufacturing operations and travel and hospitality.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Yeah, I'll just add to that quickly, John. This is JD. I just thought I'd add to that. That's right. I mean, our subscription revenue coming from real estate is actually now about 60% of revenue. All other verticals are up to 40%. And so that balance is continuing to occur and it's been consistent over the last four quarters. And I think as a result, you're starting to see some of that paid subscriber growth coming from other verticals in addition to real estate.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then maybe another question obviously great to see the \$600 million of cash and investments, you referenced. But just wondering, if you could give us an update either on H1 versus H2 how you're thinking of uses of cash. And when you think you kind of get to cash positive? Thank you.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. You know, the last three quarters was an intense growth period for Matterport. And as I mentioned on the call, we did a great job in fleeting up the organization, bringing that capacity and where we needed it, especially in these expanding markets.

And that is where the bulk of our focus and attention has been sales, marketing and in the R&D function. And that was predominantly, the last nine months activity and we got where we needed to be. And so as we turn towards the second half of the year, it is all about activating and maximizing productivity from the increased capacity that we've invested out. A lot of new folks joined the company as recently as the last three or four months. So we're still fleeting up for sure and we're putting a lot of attention towards our go-to-market with that increased capacity.

And what you'll see in the future is a shift from investment in head count to a shift in our go-to-market programs, building brand awareness and understanding in those geo expansion markets we talked about and again with a very pointed interest in expanding in the enterprise. And so that's going to definitely be an investment shift, but also an overall OpEx tapering without question, right? As we've really achieved cruising altitude a little bit ahead of plan here, we can now go to work and just grow in that business and grow in the pipeline.

John Walsh

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you for taking the questions.

Operator: Thank you. And the next question comes from Bhavin Shah with Deutsche Bank.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my question. Just focus on subscription revenue. If I look at your 1Q performance and 2Q guidance. It would imply a pretty material sequential growth in the back half of the year. Can you just talk about what are some of the drivers set – that's seeing that confidence and seeing the ability to kind of ramp up in 2H?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Absolutely. Couple of things, right. We've been, you know, laying the foundation for subscription growth really over the last 18 months. And there's a few really important forces at work that are just continuing to drive acceleration in this all important part of the company.

And first and foremost is creating options to accelerate adoption. And that is our Capture Ubiquity strategy. And Matterport for mobile, Matterport Axis in combination with Capture Services, which JD spoke about seeing really strong acceleration as well. That's driving the adoption of digital twins, right? And of course, as you know, the more space under management, the faster we grow our subscription business.

And so putting these very scalable auras in the water, particularly in an environment where we've discussed before the challenges in the supply chain related to hardware and the manufacturability of our Pro2 camera, this is giving us tremendous option value. We've seen great success out of the gates with Matterport Axis and smartphone capture and capture services tend to be just extraordinary advantages for us to play in this constrained environment that we're in today. And that's what's given us the confidence, even in today's environment, to see that kind of acceleration in the back half of the year. So that's one.

The other part of this too is, we're really now have the capacity in the organization to move much quicker in driving penetration in new geographic markets and across our newer end markets. And that's not just in the sales functions, but also in the marketing investments we're making to create that market understanding and to shorten the sales cycles for our workforce out there.

And then lastly, I would say is, datafication. This is specifically in the use case of our emerging customer base in the enterprise that looks to Matterport to manage their facilities online in a more cost effective and time efficient manner. And getting building insights, remote building inspections in full property and asset audits from our software is generating tremendous upside for both the installed base, but also a very powerful use case that's bringing many of these new enterprises that I mentioned in the call on to our platform as well. So, that's creating a compounding effect of additional subscription revenue and that's today working exactly to the plan that we put forward.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Super insightful. And I guess a follow up on that first point, can you maybe help us better understand how the mix of maybe paid Spaces Under Management breaks down between ones that maybe leveraged a Pro2 camera versus something that our space at leverage maybe mobile or Capture Services and how that's trended over time, just to help us better understand how big Capture Services can be over time?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. Well, I'll take the last question and then JD I'll flip it back to you for the breakdown. But look we think Capture Services has enormous potential because remember, today, our Capture Services network reaches more than 40 countries. In fact, I think we're ostensibly in more than 50, but squarely in at least 40 countries today and growing.

And these capture service providers now have more options at their fingertips, limited not only to a Pro2 camera as the means of showing up to your property or your portfolio of properties and digitizing them. You can now use low cost third-party capture devices, the 360 cameras from our partners, as well as, of course, a smartphone and now a smartphone plus Matterport Axis that's a pretty big deal because it's bridging a gap using ostensibly a

consumer device to create a professional grade digital twin that also increases basically the types of people who could become a capture service provider.

That's as simple as just for any professional photographer or professional service person of any kind, they could now very easily use their own smartphone in their pocket, plus a very low cost device in Matterport Axis to produce something that we're seeing, you know, meeting the standard for mid-market and enterprise, as much as it is for a small business.

So that really puts a tremendous opportunity for acceleration in front of us. And then looking at this that early stages of the introduction of this new solution, we're very, very encouraged by its potential.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Yeah, and I'll just add in, it is somewhat early in the Capture Services life compared to the Pro2, of course. The Pro2 has been around for nearly five years now or I think at least five years now. And in Capture Services, it has been delivering revenue here for about a year and a half. And so notwithstanding that, you know, we've seen Capture Services, in terms of space creation grow, you know, well over 50% year-over-year. So, while we don't give out that specific number itself, the growth rates actually have been in that 50% range ending this quarter.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my questions.

Operator: Thank you. And the next question comes from Elizabeth Porter with Morgan Stanley.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you so much for the question. Congrats on the quarter and reiterating the full year guide despite some of the macro volatility. I was hoping to get just an update on demand within that residential real estate [indiscernible] (44:51). And just given rising interest rates and headlines on softening demand, how should we think about Matterport's ability to either take a bigger piece of a potentially smaller pie of residential real estate activities or the ability for those new verticals like insurance and construction to offset a potentially slower real estate market? Thank you.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Yeah. Great. Thanks, Elizabeth. First, we haven't seen any impact on our business either from the unusually low inventory of houses for sale, particularly in the United States, or as a result of rising interest rates.

So the residential real estate and commercial real estate spaces have continued to grow with us and perform as expected in the first quarter. And of course, the other thing that I think about a lot and look at is the fact that we do have a global business. We've got Matterport customers in nearly 180 countries. And then to your point, we obviously have a growing business in non-residential real estate vertical markets as well. And we are seeing growth in all of those other verticals.

Certainly travel and hospitality, as RJ mentioned, is growing as we're starting to see more people out and about traveling, experiencing restaurants and events. We're seeing growth in the business there. Similarly, in insurance,

factory management, in facilities and in retail and all those sectors, they're growing as companies are increasingly looking to improve their efficiency of operations by using technology, particularly AI and ML-driven technologies. So, I think that we'll continue to see kind of growth in all verticals and even with if the – or as the US residential real estate markets go through its ups and downs with respect to mortgage rates or home selling prices, we still have an incredibly large opportunity just in that segment in front of us.

We think our penetration rates in the United States, for example, are about 7% of homes listed in the United States each year have a Matterport digital twin associated with them. So there's another 93% of that market, regardless of whether it's 6 million homes sold in the year or 5.5 million homes or 5 million homes sold in the year, that's ahead of us to go capture in that segment too. So the opportunities, I think, in all those segments remain significant, massive and in front of us. And I think we'll still continue to see the growth as we're forecasting even with a dynamic market environment.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. And as a follow-up, it was interesting to see the Midland Holdings acquisition. Just curious to get kind of a deeper rationale for acquiring a broker. And is that a strategy you're looking to expand? Thank you.

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Well, I think to clarify, we did not acquire them. We acquired them as a customer. But no, we did not own Midland Holdings. They are our customers very much like a number of enterprise relationships that we engage in with global brokerages around the world, like Compass, for example, and Keller Williams, JLL and Cushman & Wakefield on the commercial real estate side. And Midland, of course, is just a fantastic gateway for us into a very large market opportunity in China.

Elizabeth Porter

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for the clarification.

Operator: Thank you. And the next question comes from Yun Kim with Loop Capital Markets.

Yun Kim

Analyst, Loop Capital Markets LLC

Q

Thank you. Congrats on a solid quarter, RJ and JD. Given the current focus on the enterprise, can you just talk about at least qualitatively, the subscription revenue mix between enterprise and non-enterprise? And how has that been trending? And should we expect any inflection point in that mix sometime in second half of the year as your recent [indiscernible] (49:04) the enterprise start to ramp? Thanks.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

Well, yes, in terms of the trends in enterprise versus SMB or small and medium business, the enterprise business has been growing as a percent of the total for the last several quarters, in fact, from last year – early part of last year all the way through to now. But, you know, both segments grow. And so the mix shift is relatively kind of

steady. So it's still about 30% of revenue is coming from the enterprise; but again, up a little bit each quarter as we go along. So, that's what we've seen looking backward.

Now, looking forward, of course, as we've talked about, we are making significant investments and RJ discussed this earlier, in enterprise, go-to-market motions, both sales and marketing. And so while I'm not forecasting an inflection, I do expect to continue to see kind of accelerated growth in enterprise, both in terms of new customer logo acquisition and in terms of outperformance in the net dollar expansion rate.

Yun Kim

Analyst, Loop Capital Markets LLC

Q

Okay. Great. Thank you. And then JD, another one for you, it's a quick one. Remind us about the various factors that's driving your account receivables. It looks like it went up a bit. Is that more of a – again function of a higher mix of enterprise business, which tends to have a longer – which generates longer DSO?

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

You're exactly right. It is a result of the increasing mix of enterprise customers. Enterprise customers and channel partners tend to pay on terms. And so, we're issuing the invoices and then working to collect those bills, whereas the small to medium business cohort tends to pay by credit card in advance. And so when you see the growth in accounts receivable, that is, as you said, it's due to the growth in the enterprise business as well as the channel partners.

Yun Kim

Analyst, Loop Capital Markets LLC

Q

Okay. Great. Thank you so much.

James D. Fay

Chief Financial Officer, Matterport, Inc.

A

You're welcome.

Operator: Thank you. And the next question comes from Wayne Trinh with Piper Sandler.

Wayne Trinh

Analyst, Piper Sandler & Co.

Q

Hi, this is Wayne on for Brent. I'm just wondering if you guys could give some insight into what drove the growth in Spaces Under Management and how we should think about monetization in the space?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. It's a good story. Across the board, we're seeing positive adoption from residential, commercial real estate and enterprise. And once again, when the – all the cylinders and the engine are firing, including Capture Services, you know, again that global network out there that continues – its acceleration continues to really ramp up that's just adding to the monthly velocity of some growth or Spaces Under Management. And this has also been a very important part of the strategy we've been discussing over the last several quarters, where we've been making very specific investments as well to accelerate those efforts, right? And to put more capacity into the system to

cast a wider net to get those initial spaces going and new accounts created in many cases and thus boosting Spaces Under Management.

Second part of this that you're going to see more and more of going into the back half of the year is we continue to see a healthy mix of paid subscriber growth and paid some growth. But also the premium part of the business is very important because that's the easiest way to test drive Matterport and to measure the value proposition in any of these end markets from enterprise and in any geography.

And because, our TAM is just so large, we need to continue to cast a much, much wider net and exponentially wider net of awareness to get that top of funnel really full to the place we'd like it. And so that's where we're going to be putting forward some highly performance marketing programs that continue to drive the awareness of the Matterport value proposition in all of these growth markets that we've been discussing in and all the geo markets that we now have a beachhead in. So, that you can expect to continue to see acceleration through the back half of the year and of course, next year.

Wayne Trinh

Analyst, Piper Sandler & Co.

Q

Great. And just wondering if there's any update on the hardware camera supply chain constraints?

RJ Pittman

Chairman & Chief Executive Officer, Matterport, Inc.

A

Sure. It is challenging. To be frank, it is – we have been making good progress. And at the same time, sometimes it feels like it's one step forward, maybe one and a half steps back, as we have been very steadily doing everything from making smart and savvy and timely spot buys to minimize the stock-outs of our products and very actively multi sourcing components from other suppliers, we also find ourselves in at the whims of the pandemic that has caused for Shenzhen and other regions to go into lockdown again and basically bring supply chains to a halt, which includes key components for our hardware product offering.

But I can tell you again, we've got one of the best teams in the business in manufacturing not just on the R&D side, but in the full supply chain management that has been doing just a spectacular job of keeping it at bay, right, to the extent we can.

Having said that, there's a meaningful backlog of products. There's very strong demand even in today's market for Matterport Pro2 cameras. And so, we're going to be continuing to work this very actively, but we're positively staying ahead of it as best we can and steadily digging out as we go. And I can't predict any further kind of global macro events, but save for those that we're contending with here in Q2 and the China lockdowns. I'm optimistic that we are doing all of the right things to keep it at bay for the quarters ahead.

Wayne Trinh

Analyst, Piper Sandler & Co.

Q

Okay. Great. Thanks, guys.

Operator: Thank you. And this concludes both the question-and-answer session as well as the call itself. Thank you so much for attending today. You may now disconnect your lines.

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