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PRESENTATION

Operator

Hello, and welcome to the Matterport Inc. Fiscal 2022 Third Quarter Results Conference Call. (Operator Instructions) Please note, today's event is being recorded.

I'd now like to turn the conference over to your host today, Lindsay Savarese, Investor Relations. Ms. Savarese, please go ahead.

Lindsay Savarese

Thank you. I am pleased to welcome you to Matterport's Third Quarter 2022 Financial Results Conference Call. After the market closed today, Matterport released results for the third quarter 2022 ended September 30, 2022. The release is available on the company's website at investors.matterport.com. This call is being recorded and webcast live. 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 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 to 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 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 as 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. And with that, I'd like turn it over to RJ to begin.

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

Thanks, Lindsay. Good afternoon, everyone, and thank you for joining us today. I am pleased to share that we have posted another record quarter, delivering on our product strategy and key results. Total revenue for the third quarter of 2022 was a record \$38 million, up 37% from the third quarter of 2021. Our subscription revenue for the third quarter was a record \$19 million, up 21% from the year ago quarter. Both of these figures are above the top end of our guidance ranges.

We have delivered a record quarter amidst rising inflation and uncertainty across the geopolitical landscape. Further demonstrating the timely cost savings and productivity gains our customers are experiencing with our digital twin solution today. We are achieving success by sticking to our key operating principles laid out at the start of the year. I'd like to expand on them a bit further.

First is innovation. We continue to make strategic investments in our products and services that deliver on our long-term vision for Matterport. In Q3, we introduced our most significant products of the decade, essential to the enterprise and essential to capturing every type of building inside and out. Customer response has been incredible and we'll share more on this shortly; second, we're committed to ensuring our customers get maximum value from digitizing their properties and growing their portfolio of digital twins in the cloud.

The Matterport cloud software solution enables businesses to realize more efficient facilities management by putting their billings online and making them accessible to employees and teams anywhere, any time at a lower capital cost. Enterprises today are increasingly turning to Matterports digital twins to repurpose and optimize the use of their facilities, while instantly boosting productivity in the remote work environment; third, as demand for our products and services continues to grow, we remain focused on maximizing the efficiency of our growth. We do this through constant optimization of our priorities program spend and marketing efficiency to strengthen our long-term outlook.

Combined with our strong balance sheet, this discipline provides a durable foundation from which to execute our business plan. In fact, we're ahead of plan this year with driving improvements to operating efficiency that when combined with revenue growth, drove non-GAAP net loss per share to \$0.09, which exceeded our guidance range for the quarter. We reported strong operating metrics with our subscriber base, growing to 657,000 subscribers in the third quarter, which was up 50% from the year ago quarter.

Our spaces under management also increased to over 8.7 million spaces, up more than 40% from the year ago quarter. As we close in on our 10 million space milestone, it is important to point out that the spaces we are digitizing are getting larger, fueled by the strong underlying demand from our enterprise customers with large buildings capture and the tireless efforts of our employees, who have delivered on big commitments to our customers.

We're experiencing strong demand despite uncertain global economic conditions, primarily because our digital twins are deflationary, saving organizations time and money by reducing operational costs. Furthermore, businesses recognize the importance of investing in solutions that provide employees with flexibility while boosting productivity.

Hybrid and remote work is not a trend. It has become integral to the future of work and for many people, it is the expectation. It is why large multinational enterprises use our digital twin platform to remotely train employees, operate their facilities and market their properties. This is also why we generated record bookings from new and existing customers in the third quarter for Matterport subscription services, Capture Services and products.

Next, I'd like to discuss our operating progress for the third quarter in more detail. And then I'll hand it over to JD Fay to discuss our financial results and outlook. Innovation is the cornerstone for the company. It steers the investments into our products and services that are critical to the success of our customers and partners.

And in the third quarter, we launched the all-new Matterport Pro3 camera. The Pro3 is a game changer for 3D capture in every way. All new sensor technology, including state-of-the-art LiDAR, and RGB sensors with powerful onboard software that delivers breakthrough performance in a gorgeous highly portable form factor.

Pro3 has already digitized stadiums, arenas and is ready to capture every aspect of the physical world, indoors and outdoors at unprecedented speed, scale and precision. With over 100-meter range, the Pro3 camera and our next-generation digital twin cloud platform combined to deliver unmatched performance at a price point that's all its own. I've never been more excited and more confident in our capture strategy as we head towards 2023, with Pro3 in the lineup, no building, no physical spaces are out of reach for Matterport.

This is key to our plan, and ensures that we have a solution for every type of customer as digital twins are becoming increasingly more important to businesses around the world. Business leaders are acutely focused on reducing operational expenses while accelerating the productivity of their workforce.

Our digital twins provide a number of value-added services and property insights that empower customers to better manage and understand their properties, ultimately driving down cost while increasing operating efficiencies. Customers can make data-driven decisions while remotely managing their facilities, conducting virtual inspections and collaborating in real time, with on-site staff to avoid downtime or to roll out operational procedures.

Demand for digital twins continues to rise as third-party research firms like Forrester Research are reporting more than half of global software technology decision-makers are already adopting digital twins. Capgemini has noted digital twins can reduce time to market and improve operational efficiency and sustainability efforts.

In addition, McKinsey noted in a recent published paper that it expects digital twins will soon become key tools for optimizing processes and making in every industry. I'd like to discuss one of our new customers in the architecture and engineering space. This quarter, we announced our relationship with Burns & McDonnell. Burns & McDonnell is one of the largest engineering companies in the United States.

And as a family of companies with 10,000 engineers, construction professionals, architects and staff focusing on the design and construction of critical infrastructure. Burns & McDonnell customers use the Matterport digital twin platform, including software services and hardware to optimize construction expansion and maintenance projects. The collaboration equips businesses in the energy, utility and manufacturing industries with a continuous digital and visual documentation solution that improves operations, enhances collaboration and increases safety in each project stage.

With Matterport, Burns & McDonnell provides digital twin management and solutions to help its customer base, including Central Lincoln People's Utility District, an electric utility company based in Oregon that serves roughly 55,000 customers. Since leveraging the Matterport platform starting in 2018, the utility has decreased costly employee travel, increased collaboration across teams while eliminating the need for over 250 expensive repeat site visits to 45 different facilities, allowing them to complete their project budget and on time.

Next up is the new digital twin platform in the cloud. Also in the third quarter, we launched a reimagined digital twin cloud software platform for the enterprise. Our market-leading digital twin platform creates, polishes and manages digital twins and buildings and spaces of any size or shape, indoors or outdoors. We added a set of new, seamlessly integrated capabilities so customers can securely create immersive environments for their employees, customers and partners to collaborate and explore.

We created a new work group collaboration framework called Views, to enable groups and large organizations to create separate, permissions-based workflows to manage different tasks with different teams. For example, virtual inspections, remote training, space planning, personalized virtual tours and so much more. We also created new tools called Guided Tours and Tags to elevate the visitor experience. Now marketing and sales teams can create directed virtual tours of any commercial or residential space tailored to the interest of their visitors, and operations team can create guided online training courses for remote workers, all from the same single digital twin.

Along with these features, we launched a fully enabled mobile solution that brings together capture, customization, view, edit, publish and restore capabilities to digital twins, all within the new Matterport app, for both iOS and Android devices. Previously, these capabilities were provided in separate mobile apps and available only on the web. Now our cloud software platform offers a combination of security, compliance and access control features that Fortune 500 customers require. We offer longer service and support hours, expanded language support, SOC 2 compliance certification and provide professional services with robust SLAs.

To expand our reach into enterprises, in the third quarter, we launched a new relationship with TD SYNEX. TD SYNEX has a network of resellers serving industries, including the technology sector, government agencies, retail manufacturing, construction and more. TD SYNEX is a leading distributor in IT solutions integrator with a workforce of over 22,000 people supporting over 150,000 customers. With this partnership, Matterport joins more than 1,500 best-in-class technology vendors in TD SYNEX's portfolio.

We have already engaged with a number of these resellers. And toward the end of the third quarter, we began to work together on go-to-market training. These resellers and their sales teams, we offer Matterports industry-leading technology to their customers delivering the value of digital twins to the enterprise and public sector. Our enterprise customers are becoming more confident in the power of our digital twins and our scaling with Matterport, bringing new spaces online every day. We saw rapid revenue growth from our largest customers and a strong net dollar expansion rate. In the enterprise go-to-market organization we have been building over the last year started to yield tangible results in the third quarter.

Now 23% of the Fortune 1000 companies use Matterport as the customer value proposition is clear to them and demand continues to build. I am encouraged by the results of our team's hard work and commitment to scaling our digital twin platform for our customers and look forward to helping them accomplish their own digital transformation with tangible results.

Finally, I would like to provide an update on our strategic acquisition of VHT Studios, which closed in early July. The integration of our operations is now largely complete. VHT extends our industry leadership with a more comprehensive approach to marketing properties online. Together with VHT, we have moved our offering closer to the customer to service more property listing with a more robust digital marketing solution than we've ever offered before.

VHT's market leadership in digital property marketing spans more than 20 years. and represents tremendous strategic value from Matterports digital twin platform for the residential real estate market and offers great potential to impact our commercial real estate and travel and hospitality markets as well, where digital marketing is vital to growth. Together VHT and Matterport are creating the most comprehensive digital twin marketing technology platform, targeted at large-scale residential real estate brokerages and enterprises with our digital twin epicenter.

VHT has established and maintained dozens of long-standing enterprise customers, including 7 of the top 10 brokers in the United States. Like @properties, Baird & Warner, Coldwell Banker, Compass, Corcoran Group and Douglas Elliman. We look forward to working with all of them and growing our business together. VHT's world-class customer service has cultivated lasting relationships with their clients, with the majority of the largest customers on board for nearly 2 decades.

In the third quarter, we launched our first offering combining Matterports digital twin and related content with VHT's content and capture solution that includes photos, videos, drone images and more. Since the launch of this combined solution, we have seen a tripling of the order rate for the combined solution. This is a compelling early milestone for the 2 companies which gives us confidence to continue to build on the first offering over the next several quarters. In addition, the early progress adds to our excitement that the combination can expand our reach with leading brands to discover the power of the digital twin and our unique property data insights to every listing online.

We are closely attuned to the evolving real estate landscape and Matterport has proven to be an indispensable tool in competitive markets and in constrained markets when demand softens and properties stay on the market longer. We recently released a survey conducted by OnePoll, where 89% of recent homebuyers identified 3D virtual tours as important the homebuying process. Our digital twins when used to create 3D virtual tours provides property agents and brokers within an affordable and effective catalyst to win listings, drive buyer engagement and sell properties more quickly. As residential real estate price is cool, Matterport digital twins are indispensable tools for differentiating the nearly 6 million annual listings in the U.S. and moving buyers to (inaudible).

I will now turn it over to JD Fay to discuss our financial performance for the third quarter and the full year outlook.

James Daniel Fay - Matterport, Inc. - CFO

Thank you, RJ. I'm very pleased to report that Q3 was a record quarter for Matterport, delivering record total revenue of \$38 million. Our total revenue was up 37% from the third quarter of 2021, up 33% from the prior quarter and above our guidance range of \$35 million to \$37 million. We saw strength across all 3 of our main revenue lines, including subscription revenue, services revenue and product revenue.

Indeed, both subscription revenue and services revenue achieved new records in the quarter. Subscription revenue rose to \$19 million in the quarter, which was up 21% from the year ago period and above the top end of our guidance of \$18.5 million to \$18.8 million. In addition, our annual recurring revenue grew to a record \$76 million.

Of our record 657,000 subscribers at the end of the third quarter, we had 594,000 free subscribers and 63,000 paid subscribers. Our subscribers continue to increase their spend with us as well. Our net dollar expansion rate was 106% in Q3. We continue to see strong expansion with our enterprise customers in the third quarter. On a combined basis, the strength was partially offset by lower expansion in our small and medium business customers who are growing more slowly in response to the volatility in the macro environment. These trends in enterprise and small and medium businesses have been fairly steady all year.

Services revenue for the third quarter was a record \$10 million, an extraordinary 204% increase year-over-year. Our services revenue continued to grow during the quarter, exceeding our expectations and the acquisition of VHT, which met our expectations, provided the strength in this revenue line. Our services offerings include Capture Services where we capture our customers' physical spaces for a fee and other offerings, including Scan to BIM, schematic floor plans and the VHT services RJ discussed earlier.

Enterprise customers are increasingly turning to Capture Services to get onto our platform quickly and at scale, leveraging the existing installed base of service providers who already own Pro2 cameras and now Pro3 cameras as well as other compatible cameras.

Our product revenue was \$9 million in the third quarter compared to \$8.6 million in the year ago period. In addition, our product revenue grew 78% sequentially from the second quarter. This was primarily due to 2 factors: First, we made substantial progress in our supply chain efforts in the third quarter. We secured sufficient materials to build and ship through all of the order backlog for our Pro2 camera. This achievement is significant for the company as we have been working with supply chain constraints since the fourth quarter of 2021; second, we launched and began shipments of our new Pro3 camera.

The Pro3 camera includes a number of powerful enhancements. The Pro3 is packed with a 20-megapixel sensor, and a 12 element lens for ultra-wide angle capture. The Pro3 has a high-precision LiDAR sensor, which captures 100,000 points per second at a depth of up to 100 meters. With a faster boot time and swappable batteries, the camera can perform in any environment, indoors and outdoors.

Finally, the Pro3 has a totally new striking design and is 30% smaller and 35% lighter than our previous model. The Pro3 camera also has a separate supply chain compared to the Pro2 camera. And this enabled us to begin shipping the Pro3 in North America on time in the third quarter. We rapidly sold out of our initial build quantity. Over the next several quarters, we are working to expand our certifications to be able to ship the Pro3 globally as well.

Our strong total revenue for the quarter included approximately \$1 million of demand from the fourth quarter that we were able to satisfy in the third quarter. We delivered on one of our large services contracts a quarter earlier than scheduled.

Additionally, we were able to expand our initial inventory of Pro3 cameras and deliver those additional cameras to customers in the third quarter instead of in the fourth quarter as originally planned.

Moving on to gross margin. Our total non-GAAP gross margin for the third quarter was 48%, flat compared with the second quarter. Our subscription gross margin was 72%, also flat with the second quarter. Product gross margin was 13% in the third quarter as compared to a negative 37% in the second quarter. With our progress in the supply chain and ability to produce our Pro2 and Pro3 cameras in volume, our cost structure improved markedly.

Additionally, we experienced a decrease in the magnitude of higher costs incurred to secure the supply of components as well as moderating freight costs. Accordingly, we saw a recovery of our product gross margin, consistent with our guidance in the prior conference call. Reviewing non-GAAP operating expenses in the third quarter, which include the expenses associated with the acquisition and operations of VHT, research and development expenses were \$12.4 million, down \$0.8 million sequentially from Q2 or 6%.

The decrease in spending reflects both our focus on operating efficiency and the release of several new subscription service offerings as well as our Pro3 camera to production in the third quarter, enabling a reduction in the related R&D program spending.

SG&A expenses for Q3 were \$33.7 million, down \$1.9 million sequentially from Q2 or 5%. The decrease was primarily due to close monitoring and reductions of our program and other spend in the quarter. We expected that our quarterly operating expenses would peak in the third quarter.

However, we were able to reduce spending significantly from our original plans, focusing on realizing returns from our investments earlier in the year, increasing the efficiency of our operations and at the same time, exceeding our revenue objective. As a result, for the third quarter, non-GAAP net loss was \$26.9 million and diluted non-GAAP loss per share was \$0.09, better than our guidance range of \$0.13 to \$0.15 loss and a remarkable 25% improvement sequentially from the second quarter. Weighted average share count was roughly 286 million shares.

Moving on to our balance sheet, which remains strong. We ended the quarter with \$495 million in cash and investments, after payment for the acquisition of VHT and we do not have any debt. We believe that we are more than fully funded to achieve the business plan we have in place.

Today, we are introducing financial guidance for the fourth quarter. For the fourth quarter, we expect total revenue to be in the range of \$39 million to \$41 million. We expect subscription revenue to be in the range of \$19 million to \$19.2 million. This guidance means that we expect full year 2022 total revenue to be in the range of \$134 million to \$136 million, with a midpoint that is unchanged from our prior guidance last quarter, and we expect full year 2022 subscription revenue to be in the range of \$73.5 million to \$73.7 million.

Broadly, we continue to believe that the supply chain constraints are moderating. At the same time, we believe that the environment remains fluid, and we continue to carefully monitor and proactively address challenges as they arise. Also, we continue to experience strong demand for our products. On balance, our product revenue expectations are curtailed more by supply availability than demand. Overall, we expect a sum of services and product revenue to be divided roughly evenly between those 2 line items in the fourth quarter.

We expect fourth quarter non-GAAP loss per share to be in the range of \$0.09 to \$0.11. We expect operating expenses to be roughly flat sequentially in the fourth quarter compared to the third quarter. For the full year of 2022, we expect a \$0.41 to \$0.43 non-GAAP loss per share, which represents a significant improvement from our previous guidance of a \$0.46 to \$0.50 loss. We are focused on accelerating our path to profitability.

In the last call, I discussed that we implemented plans to reduce our overall spending. I'm pleased that we started to see these cost savings flow through our income statement beginning in the third quarter. This progress is 1 to 2 quarters ahead of our initial expectations. We have operated the business profitably in the past and are focused on returning to profitability as we continue to grow the top line. Our high-margin subscription business and strong business model, combined with our past profitable operating performance continues to provide us confidence in the long-term strength of this business.

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

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

Thank you, JD. Our record Q3 results demonstrate the strength of our value proposition and growing demand for our innovative new products that are disrupting the industry. We continue to navigate the dynamics of the global market with agility while delivering for a growing roster of customers around the globe. Matterport solution is fast becoming an essential ingredient to help companies deliver measurable cost savings, operating efficiencies and critical productivity gains in an environment where every business is looking at how to get their businesses healthy and more efficient.

Matterport value proposition offers a unique opportunity for companies to transform their business operations with a low-cost cloud subscription plan that is unmatched and fueled by 11 years of R&D focused on providing the best tools for marketing, managing and optimizing properties of any kind.

Matterport is at the forefront of one of the most important transitions to technology in the physical world, and our platform is digitizing buildings in almost every country of the world. With 23% of the Fortune 1000 using Matterport to manage their enterprise facilities, real estate portfolios, factories, offices and retail locations, we have great confidence in our long-term plan.

Our enterprise business is executing well, and we are enhancing the features and use cases of our platform to rapidly meet the needs of our growing customer base. We expect the global economy to remain constrained heading into 2023. We will continue to execute on our strategy that has proven successful to drive steady growth even in times of uncertainty across the industry.

We are focused on meeting the rising customer demand and driving global adoption of Matterports digital twins in pursuit of our mission to make every building and every space more valuable and accessible. We have the world's largest subscriber base for digital twins, and we have created more digital twins than any other company to date. The market opportunity for Matterport digital twins is both enormous and expanding. Thanks to a record Q3 of innovation and strong business results, we are very well positioned to grow market share and scale our global enterprise business.

Our latest offering is more powerful and versatile than ever before. And importantly, it's even easier to use. Product market fit is better than ever. We are delivering digital transformation to the largest asset class in the world, real estate.

And today, we can generate a precision photorealistic digital twin for every building on earth, using powerful AI software and a wide array of capture devices. With more than 4 billion buildings in the world, we are still in the early stages of this industry revolution. And the industry is responding positively to Matterport's continuous innovation and market expansion. We couldn't be more confident and energized for the opportunity that lies ahead.

Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Bhavin Shah with Deutsche Bank.

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

RJ, just first, I mean you spoke a bit about your continued improvement in your enterprise go-to-market strategy. And I know in the past, you guys have spoken about larger customers maybe being slower to ramp. Can you just talk about the trends you're seeing here with these customers today and what you've done over the last quarter to maybe accelerate that? Or are they still kind of seeing a sluggish start to run into their commitments.

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

Yes, sure. Thanks for the question. Let me start by saying a couple of things. It's an evolving 2-way street. First is on Matterport side, as you've heard from us over the past few quarters, we have been investing in the capacity to manage and expand our customers through our own customer success investments to our own client success, tools and capabilities that provide a faster response to helping our customers and meeting our customers where they are today.

We've made tremendous strides and forward progress in all 3 regions around the world and really flexing up that capacity to deliver. So this is the first step in accelerating that path for us, and is really starting to show some early green shoots.

So -- and it really -- it begins at the start of an engagement with a customer where we're initially seeing even some improvements and acceleration in the sales cycle itself, right? With that increased capacity on the front lines and also the increased capacity to support our customers once they are on the platform. So -- the good news is you pair that with all of the innovation that we've also brought forward squarely centered on the enterprise solution -- and it's also streamlining adoption in these organizations because the product is easy to use, it's more secure, it's more turnkey to deploy into these larger, more complex environments. So early days, but really great progress on all fronts.

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

That's helpful there. And just a follow-up for JD. Can you just give us some insight into the contribution from VHT this quarter? And then I guess from a guidance standpoint, can you just talk about what's embedded in terms of your 4Q guide relative to the macro and the macro assumptions embedded in that?

James Daniel Fay - Matterport, Inc. - CFO

Sure. Thanks, Bhavin. Yes for VHT, in the quarter, it delivered about \$4.5 million of revenue, which was consistent with what our internal forecasted guidance were, which is great. It is a more seasonal business because it's focused on the U.S. residential real estate market as we talked about in the last call. And we said in that last call in Q2 that we would expect that to be sequentially softer as a result. And I'm still seeing that today.

But again, consistent with our expectations going into the second half of the year. And in general, with respect to the macro environment, our guidance reflects the perspective that Q4 is going to be very similar to Q3 with respect to macro. And we've all read the movements in interest rates. And we've seen the volatility in the markets over the last quarter and even earlier than that this year. And so with respect to our guidance, we're going to assume more of the same. And so that's what's built in.

Operator

And the next question comes from Brent Bracelin with Piper Sandler & Company.

Hannah Sable Rudoff - Piper Sandler & Co., Research Division - Research Analyst

This is Hannah Rudoff on for Brent today.

Just first one for you, RJ. I guess, could you think about how you're thinking about cross-selling your core offerings into the existing VHT Studios customers? And how quickly you could realize that?

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

Thanks, Hannah. Sure. We are realizing it already today. One of the things I'm really proud to report is how fast we have worked together with VHT since the acquisition to create a joint offering, get it in market, and get some customer wins, right? And essentially, what we're doing is creating an all-in-one solution that makes it easy for anybody in the real estate game, in particular, residential real estate here with VHT to get all of your property marketing needs taken care of in one single package, which now has Matterport digital twins at the center, right?

So photography, aerial photography, web assets and content and of course, the Matterport digital twin, everybody that's doing residential real estate marketing is looking for the total package. Sometimes they get it from 1, 2 or 3 different sources. And today, they can get it from a single one and at a much more competitive price by putting it all together in a single package.

So really excited to see how quickly we moved within the quarter of the acquisition to deploy our first commercial offering. We've got a lot more coming in this regard next year. And we're actually using this blueprint as a framework for how we're going to scale this in Europe and across Asia as well, where we've got huge untapped opportunity to just keep grabbing more market share and ROE in those regions as well.

Hannah Sable Rudoff - Piper Sandler & Co., Research Division - Research Analyst

Great. Super helpful. And then second one, it's nice to hear about the positive reception for the Pro3 camera in the quarter. I guess, how much did that contribute to product revenue this quarter? And then how much did the release of that new camera impact the strong demand you saw for Capture Services?

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

Sure. I'll take maybe the top part of it. JD, you can talk about kind of the details of it. Response for Pro3 has been extraordinary. And remember, this is a product that enters the market at twice the price at \$6,000 entry point of our long-standing flagship product, the Pro2 camera. And despite the higher price, it's really the performance in the package here that is kind of stealing the show and is what's certainly created a price performance package here that's in a class all its own that even customers in line for a Pro2 camera more than maybe we've even expected, have decided to jump up and go for Pro3 instead -- and that's just a really strong show of support that I think we've really nailed again not only the price point, but that product market fit and extraordinary new set of capabilities. It's a very exciting product for us.

And it is without question, it exceeded our expectations on the quarter, exceeded all available inventory we had, and we expect to see just that demand continue through the rest of this year and well into '23 because we still have quite a bit more work to do to just get that product availability everywhere in the world. We started in North America, and we're now in that process this quarter of getting our distribution channels globalized. JD, do you want to add anything to that?

James Daniel Fay - Matterport, Inc. - CFO

Yes. Thanks. So product revenue largely was comprised of the Pro2 camera, of course, coming out of its backlog situation and us being able to ship that in volume. So we had very strong sequential growth in product revenue with the Pro2 camera. And then as RJ just mentioned, we started shipping the Pro3 essentially towards the end of the quarter. So it was a meaningful contributor to product revenue in the third quarter, but still a minority of the revenue. And then, of course, as RJ mentioned, as we get into full quarters of shipment into more regions, we'd expect Pro3 revenue and potentially even the mix to grow in that product revenue line.

We don't actually report them as separate line items. We report that product revenue number as combined, total figure, but that's what's moved broadly in the quarter.

Operator

(Operator Instructions) And the next question comes from Yun Kim with Loop Capital Markets.

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

First, congrats on a solid quarter and a successful launch of Pro3. With the launch of Pro3 camera, was there any related price increase for the subscription plan or any new high-price tier that was introduced? And if yes, how should we think about the ARPU trending for -- how should we think about the ARPU trending as the Pro2 customers migrate over to Pro3?

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

Sure. Thanks, Yun. First up is there are a few things that puts the Pro3 camera and, let's call it, the total digital twin platform solution in a new class and a new tier, including some opportunities for upsell. In particular, this is a much higher fidelity, higher precision capture device. And so we can actually produce a much higher fidelity 3D model or 3D Digital Twin and 3D mesh. And we can unlock greater fidelity, higher performance in the digital twin platform for those customers that have more exacting requirements, higher precision and fidelity requirements for construction, industrial or manufacturing needs, you name it. And so that indeed will definitely create some expansion within our existing customers that are moving up to Pro3, not only on the product side, but also in the subscription revenue.

The next piece is there's a growing correlation with the high-performance capture capabilities of Pro3 and the space that we are standing up for datafication, right, which is our property intelligence and property insights add-ons, some of which are available in our marketplace today, and more of them are coming in the quarters to come here, that are going to increase in value and relevance once you have a higher fidelity digital twin in your platform going forward, right? So we're going to see a few different opportunities here where we're going to be able to move our customers upward in terms of their investments that they're making per subscriber.

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

Okay. Great for that answer. Obviously, the other question that I have is probably on everyone's mind, if you can -- I know you talked about it somewhat in your prepared remarks, but if you can give us some insight into how the current real estate market, both residential and commercial is impacting your business. For instance, is that -- is the growth coming from that vertical, has that been slowing anything offset by the growth in the other verticals? How should we think about the overall impact of the real estate market in your business?

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

Sure. So as the real estate market continues to feel the pressure and the constraints here in FY '22, Matterport has managed to hold it steady, right? So growth continues in the RRE category for us. And that's partly because -- there is still plenty of room for Matterport to grow as our value proposition becomes more and more clear to the customers that are not yet on our platform and are not yet using a digital twin are realizing that even in a constrained market and perhaps even especially in a constrained market, just like we saw in the early days of COVID, more efficient and more effective property marketing is more critical than ever, right?

This is a time when properties are listed, those homeowners are hoping that their property sells quickly and for the best price. And we've established over the last 10 years. Very, very strong proof points, so that's exactly what happens. Homes that have a Matterport digital twin attached to their listing, sell faster and for a higher price. And so it becomes increasingly more important, not less important, in a constrained market like this. And because there is still so much gettable market share that we see opportunity to continue to express the Matterport value proposition to an entirely new customer base this year and next, right?

So we're -- we think we could potentially be growing faster if we had more tailwinds, most certainly supporting the growth of the RE industry, not constraining it but we have continued to be successful in finding ways to grow within this constrained market.

Operator

And the next question comes from Elizabeth Porter with Morgan Stanley.

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

Great. I wanted to follow up on your comments on just investing in the capacity to sell to larger enterprises. Can you just give us an update on the ramping of those heads and just an update on sales efficiency overall?

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

Absolutely. Thanks, Elizabeth. First, we have done 2 things. We -- as mentioned, we have been steadily increasing the capacity of our sales force. And really, I would say the team that represents the entire sales life cycle. So that's, of course, the sales folks, the sales ops, customer success and customer support teams. And finding ways to create just greater operational efficiencies with how we are utilizing the workforce in more efficient ways as well. So not only adding to the capacity but also increasing the efficiency as well.

And we've done this combined actually with a lot of really strong improvements in our marketing programs and marketing strategies and investments that together have generated very positive gains in overall Matterport productivity. And we measure productivity on a -- broadly speaking, on a revenue per employee basis, right? And so our goal at Matterport has always been to -- as we continue to grow, we'd like to grow efficiently, right?

As we add capacity, can we further accelerate growth in the top line. And Q3 was -- as we really leaned in on those of efficiency activities and really dialed in the efficiency of our sales and marketing organization, we saw immediate results.

And you can see it in the results that we're posting in Q3, and we feel great about that momentum going into Q4. We're being careful about it because it is a very dynamic market situation out there, most certainly. And it varies in very unique ways between Americas, Europe and Asia Pacific. And so we have unique strategies for each of those markets. But so far, all 3 of them are continuing to show really promising and positive productivity improvements that we expect to continue even in this constrained market.

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

Great. And then just as a follow-up, you paid subs looked like it was coming a bit weaker. So I just wanted to get a sense for how much of that is just overall harder demand environment for new customers in a given macro versus kind of a focus on fewer but larger logos.

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

Sure. I'll take it from the top and JD can support on this one as well. Firstly, 2 things are happening. One is our customer, I'd say that sort of individually is getting larger, right, which is great to see the size of these enterprise customers and either the space that they are digitizing or the portfolio of properties that they're digitizing is also continuing to grow, as we talked about on the call. And so that's doing a couple of things, right?

As we continue our journey and our expansion into an extraordinary enterprise opportunities, the average size of a Matterport digital twin in terms of square footage or square meters is continuing to grow, right? And second to that is the size of the company, as mentioned, is also getting larger. So there indeed is a bit more work, a little bit more complexity, certainly than SMB and self-service down to our starter tier to get these businesses online.

The good news is though that the revenue per space is -- goes up dramatically with these larger customers and these larger spaces. This has been driven by the very important and new enterprise pricing model that we introduced last quarter, and we've been rolling it out actively around the world, and it's a value-based model that is demonstrating already tremendous upside potential here on a revenue per space basis, that allows us to just scale the business overall as the size of those spaces and the size of our customers grow, right?

So this has been a significant advancement for us in the business model and our go-to-market approach. And we're still in the very early innings of it, but we really like what we're seeing so far.

Operator

And the next question comes from Gal Munda with Wolfe Research.

Gal Munda - *Wolfe Research, LLC - Research Analyst*

RJ, first, I'd just like to kind of look at the trends of growing spaces under management, solid at 40%, subs growing at 50% in total. When I look at that ratio, is it fair to say that in effect, there's an element of seating? And how should I look at subs is a leading indicator of both the paying subs in the future and also potentially increasing spaces under management.

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

Thanks, Gal. It's a dynamic one. This is an evolving story, and we're going to continue to talk about this as it unfolds. And you see a couple of things that are happening here. And as Elizabeth just asked and alluded to, we are -- not all some is the same, right? And in the earlier days of Matterport, there was maybe a much closer -- I wouldn't say 1:1, but a closer ratio of accounts to spaces that you could map. But as the nature of our customer base and the nature of these subscribers continues to shift up into very large entities and companies that have portfolios in many cases, tens of thousands of facilities or buildings or retail locations to go Matterport and create a digital twin from that's going to skew things because one account could map to one very large facility or one account could map to tens of thousands.

What we're also going to see is a continued investment in that what we call the self-service tier, the freemium tier and the starter tier because it is a fantastic touchless way to bring new customers into the Matterport platform and customer life cycle. And in particular, this mix is also changing, right, from what initially began as small either individual homeowners or property managers for, say, an Airbnb to get 1 or 2 spaces, Matterported on this tier is also becoming the on-ramp for enterprises to evaluate and try out the Matterport technology with just a smartphone in their pocket, downloading our free app and scanning a manufacturing facility to prove the power of our digital twin in a touchless manner, right?

So this is why I say this is a bit of an evolving picture for us on a correlation basis because -- we have so many of these new customer profiles entering the mix in a pretty material way, right? And that's going to, I think, continue to shift things around for us as we evolve where you might see more spaces or more revenue from fewer spaces and fewer subscriptions.

Gal Munda - *Wolfe Research, LLC - Research Analyst*

Got you. Very helpful. And then maybe, JD, maybe for you. When I look at subscription revenue, especially around the gross margin development, is the second quarter in a row that's kind of in the low 70s. Last year, you were doing high 70s. What's driving that? And what should we be modeling going forward as we move, let's say, into next year and just kind of more midterm?

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

Yes. Thanks, Gal. From the subscription gross margin perspective, we've done a few things this year. We've made some investments, which is impacting the last couple of hundred basis points of that gross margin. We talked about it a little bit on the last call as well in Q2. We've added a number of customer support functions and extended our professional services offering around the world in more languages and more hours to service kind of the global customer base. So that's one piece of it.

We're also working in the technology side to bring more efficiency to the processing and serving of the digital twins globally as well. And so that added a little bit of infrastructure costs. But we think that over time, however, now that those foundational elements are in place, we can continue to grow subscription gross margin. In terms of modeling, for the next quarter, I would model it roughly flat because it will take us some time to realize that those scale benefits. So that's what I would do with respect to modeling.

And then finally, I don't believe over the long term, there's really anything structurally different in our overall gross margin, of course, which has 3 points, 3 parts, not just the subscription gross margin, but also services and product, which services is, of course, above our long-term model and holding very steady at 35%. And then product gross margin is actually starting to recover from some of the low points it had earlier in the year to just above breakeven.

Operator

And this concludes the question-and-answer session. I would like to return the floor to Mr. RJ Pittman for any closing comments.

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

Thanks, everybody, for joining us on Matterport's Q3 earnings call. We appreciate all the great questions and dialogue, and we look forward to providing you update on our progress in the next quarter's earnings. See you then.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.

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