

03-Nov-2021

# Matterport, Inc. (MTTR)

Q3 2021 Earnings Call

## CORPORATE PARTICIPANTS

### Soohwan Kim

*Vice President-Investor Relations, Matterport, Inc.*

### RJ Pittman

*Chairman & Chief Executive Officer, Matterport, Inc.*

### James D. Fay

*Chief Financial Officer, Matterport, Inc.*

---

## OTHER PARTICIPANTS

### Daniel Ives

*Analyst, Wedbush Securities, Inc.*

### John Walsh

*Analyst, Credit Suisse Securities (USA) LLC*

### Brent A. Bracelin

*Analyst, Piper Sandler & Co.*

### Yun Kim

*Analyst, Loop Capital Markets LLC*

### Sophie Lee

*Analyst, Berenberg Capital Markets*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Thank you for standing by and welcome to the Matterport, Inc. Fiscal 2021 Q3 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentations, there'll be a question-and-answer session. [Operator Instructions] As a reminder, today's conference call is being recorded.

I would now like to turn the call over to your host, Mr. Soohwan Kim, Vice President of Investor Relations. 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 the GAAP financial measures. Reconciliation of each of these non-GAAP financial measures to the most directly comparable GAAP measure can be found in today's earnings deck which is available on the company 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 third quarter financial results with you. This is the second earnings call as a public company and we had another strong quarter delivering on our products, strategy and results.

Our subscriber base more than doubled to over 439,000 subscribers and we delivered over \$15 million in subscription revenue, up 36% from one year ago further increasing its percentage of the revenue mix with total revenue for the quarter of \$27.7 million. This includes an all-time monthly shipment record for our Pro2 camera for the month of September.

I would like to talk about four key initiatives that we have recently brought to market: Matterport for Android, our entry into the public sector, BIM file for the AEC category and an update on our partnership with Facebook, now Meta.

Before handing over the call to JD to discuss our financial results for the quarter in more detail, let's start with Android and our Capture Ubiquity strategy. We've had tremendous success with our breakthrough approach to camera, selling over \$100 million of hardware in the first 10 years of our history. We also knew that Pro2 would be just one of the many ways in which we would capture the built world digitally. Over the past three years, we've opened up our capture ecosystem to a number of third-party cameras, including the high-precision Leica BLK LiDAR camera, followed by a support for low-cost, highly portable 360 cameras. It was at this point that Matterport unveiled scalable true 3D capture from standard digital photography. This breakthrough was powered by Cortex, our artificial intelligence engine that can accurately predict 3D geometry of any space because it was trained on the accurate 3D data captured over the years with Pro2. In 2020, we took Cortex even further, training the AI to accurately predict 3D building geometry from flat photos taken from an iPhone. The early beta product was well-received, attracting more subscribers to our platform in three days than in the first eight years of the company. To say that Matterport for iPhone has been an important part of our SaaS subscriber growth strategy would be an understatement.

As we approach 0.5 million Matterport subscribers today, it is almost hard to imagine we had just over 13,000 subscribers on the platform at the start of 2019, making the first Matterport space free for our new customers is very important to our business. This compelling offer removes any friction from getting started and becoming successful with their first digital twin of any space; a home, office or hotel, all from just a smartphone in their pocket. Just download and go.

Later in 2020, Matterport exited beta with another groundbreaking announcement, in full support for iPhones and iPads with Apple's new LiDAR sensor added to the device's camera system. Matterport's partnership with Apple has continued to flourish, including our technical input on LiDAR software controls, ensuring Matterport seamless integration on these new devices while also creating solutions for Apple's global enterprise customer base; the results of Matterport plus high-precision, enterprise-ready LiDAR capture solution that fits in your pocket. It is simply game changing. Now, during that same period, Matterport recognized that our big ambitions for smartphone capture would only be partially fulfilled without Android which represents nearly 75% of active smartphones in the world today. And with companies like Samsung, Xiaomi and Google shipping more than 1 billion new Android phones every year, the potential is massive.

I'm happy to confirm that we have delivered on that commitment with the full release of Matterport for Android in the Google Play Store on October 28 for 175 countries around the world, enabling both existing and new customers to experience Matterport using just the Android phone in their pocket. Together, Matterport for Android and Matterport for iPhone provide a 3D capture solution for the vast majority of the world's digital citizens and we call it Matterport for Mobile. And as always, your first full-featured Matterport for mobile digital twin is free. From here forward, we will be rolling Matterport for mobile across all of our key vertical markets and geographies; starting with travel and hospitality, insurance, residential real estate and the enterprise. This highly portable all-in-one solution makes 3D capture more convenient than ever for homeowners, hospitality hosts, facilities, managers alike.

Here's a quick take of Matterport for Mobile's powerful value propositions in each of these global markets. For travel and hospitality, property owners want to maintain, promote and feel confident managing multiple properties online with ease. For insurance, building owners can quickly document a home, assets, warranties, upgrades, personal property and even keep active records of how the property, its contents and condition have changed over the years. They can also easily capture a Matterport model on a loss to quickly document things such as subrogation, insurance fraud, sub-bids, approval questions and resolution disputes. For residential real estate, property owners and agents can easily and freely start capturing properties with no special camera required, allowing them to quickly add 3D tours to improve their online engagement and visitor conversions. For enterprise, large companies and facilities managers gain the ability to enlist teams of people to head out and accurately capture many buildings and spaces at the same time, each using a smartphone in their pocket. This is just a sampling of the enormous opportunity that Matterport for Mobile will bring to our Capture Ubiquity strategy in the years to come.

Next, I would like to explain our entry into the public sector, extending Matterport into this important and meaningful part of the built world. The market opportunity for digitizing the public sector is substantial; spanning federal, state and local government agencies. The segments include education, law enforcement, military, infrastructure and healthcare. Building assets, infrastructure and other physical spaces within the US federal government alone exceeds \$260 billion in value according to a study done by the Obama administration in 2017, representing hundreds of thousands of buildings and spaces and infrastructure budgets that are measured in the trillions of dollars in the US alone. The appeal of this enormous market opportunity stems from our established offering across the property lifecycle including construction, facilities management, insurance and remote access, training and inspection of facilities from anywhere in the world. Matterport's decade of experience is a distinct advantage to the sector that will provide government agencies and departments a jump start that would otherwise take years to develop and deploy with more expensive and complex solutions.

We are going to market with two strong partners. First, we recently announced a strategic partnership with In-Q-Tel or IQT. For more than 20 years, the intelligence and national security communities have relied on IQT to anticipate its technology questions, needs and achieve solutions. We are thrilled that IQT is advocating for and representing Matterport to secure federal agencies in a way that will help these government organizations stay ahead of the technology curve and ensure the national security of the US and its allies.

Second, our longstanding partnership with Amazon's AWS division expands with the launch of AWS GovCloud. This will be the platform where we deploy and manage our first FedRAMP-compliant offering as we work together with AWS as a new member of the AWS Public Sector Partner Program. Upon formally entering the public sector in Q3, the demand was immediate. We have signed a number of customers with compelling use cases, including a large public school district in the United States to capture an initial footprint of 60 schools for first responder coordination, situational awareness and space planning and facilities management longer-term. In the event of an incident or crisis, the police departments, fire departments will now have detailed knowledge of the building

layout, ingress, egress and where the critical infrastructure is located from a remote location and long before entering the building.

Now, moving on to the category of architecture, engineering and construction or AEC, I'd like to introduce our next big product for this industry, the Matterport BIM file. Building information modeling or BIM is a process for creating and managing information on a construction or design project across the project lifecycle. BIM brings together all of the information about every component of a building into one place. Creating a digital BIM enables those who interact with the building to optimize their actions, resulting in a greater whole life value for the asset. Using software such as Autodesk Revit, professionals can create models for conceptual design, visualization, analysis and construction.

Building information models are not limited to just the dimensions and geometry aspects of the building. Project stakeholders can include information about behavior, performance, material types, costs and more within the BIM model. BIM objects contain whatever information designers input in the system. Until now, it does require a considerable amount of measurements and CAD translation labor to put all the data into the system to realize the full benefits of BIM. The process can take several weeks or longer, depending on the size and complexity of the project.

Today, we are speeding this process up dramatically with the launch of the Matterport BIM file add-on service, available to every Matterport digital twin on the platform today. Our customers can quickly transform a Matterport digital twin into a ready-to-use Autodesk BIM file at the click of a button; receiving the final output in days versus weeks or months and most importantly deliver it at a fraction of the cost. Architects, designers and building engineers can now accurately reflect the current state of any building and its contents in CAD faster, easier and more cost effectively than ever before. As with all of our new vertical market applications, we don't beta test in small corners of the industry. We have been working with Autodesk on the technology and the early deployments are with some of the biggest and most recognized firms in the industry, including the legendary firm, ERA, and HH Angus. Together, we are delivering the fastest and most convenient path from Matterport reality capture to BIM in just days from the click of a button. This is at the center of the global construction industry today. It is equivalent to the PDF document standard for any design build project in the modern age. Matterport's BIM file add-on offers breakthrough Scan to BIM performance for any building project large or small, enabling Matterport to accelerate the creation of the built world in both physical and digital form simultaneously.

Our spatial data platform continues to unlock enormous opportunities for the company. At the end of Q2, we announced a collaboration with Facebook AI Research, now Meta, through which we made the largest ever dataset of 3D indoor spaces available for academic research across the fields of robotics and autonomy to train AI systems to function in both the physical and virtual worlds. The program is off to a fast start, exceeding all expectation with hundreds of high-quality institutions and research groups qualifying for the program and beginning their work, including Cornell University and Carnegie Mellon, to name just two. Matterport and Meta recognized years ago that digital twins of the built world and powerful spatial data hold a unique potential to transform the ways in which we work, live and play. This was foundational to the partnership and looking ahead, potentially very relevant to the development of the metaverse.

Matterport for Mobile, BIM file, the spatial data partnership with Meta and our public sector initiative are four significant examples of how Matterport is delivering on our platform-first strategy to accelerate the digitization of the built world across industries. Q3 was another proof point with clear signals of industry buy-in, key customer wins and breakthrough product launches. We have more exciting launches coming and I look forward to sharing them with all of our investors in the coming quarters.

I will now turn it over to JD who will discuss our financial performance for the third quarter and the continued strength of our business model.

## James D. Fay

*Chief Financial Officer, Matterport, Inc.*

Thank you, RJ. I am delighted to report that our Q3 was another solid quarter for Matterport, delivering record third quarter revenue of \$27.7 million, up 10% from Q3 last year, which is on top of one of the company's all-time best quarters last year. In addition, we are reporting continued growth in our annual recurring revenue metric to a record \$62.7 million at quarter-end. We continue to make significant progress on our mission to transform the world's buildings and spaces into data through digitization and datafication. Our offerings continue to resonate with customers in our target segments as evidenced by our growth in total subscribers year-over-year. We had another stellar quarter of customer acquisition, increasing our subscribers 116% to 439,000 in Q3. We had strong growth in both free and paid categories. Our free subscribers grew 136% to 385,000 while our paid subscribers increased 35% to 54,000.

I will now discuss our Q3 financial results in more detail. This discussion includes some non-GAAP financial measures and we have included tables that provide reconciliations between non-GAAP and GAAP financial measures in the quarterly presentation available on our website. Revenue was led by continued growth in subscription revenue. License revenue was as expected and product sales came in below expectations given the environment which we will discuss a bit later. The majority of our revenue is comprised of recurring subscription revenue. Subscription revenue was up 36% from a year ago to \$15.7 million. Subscription revenue as a percent of total revenue continues to grow and was 57% of total revenue in the third quarter, compared to 46% in the year ago period. Subscriptions are core to our growth strategy and we use the other revenue lines, product services and license to continue to build subscription revenue over time. The growth of subscription revenue also naturally results in more of our revenue becoming recurring with high gross margin. Our subscribers are also increasing their spend with us at a healthy rate. Our net dollar expansion rate was 114% in Q3. While this growth rate does not match the record high we saw in Q2, I have said in prior calls that our historical growth rate for this metric is around 110% and I am pleased that Q3 was comfortably above our historical trend.

I mentioned in the past that our net dollar expansion rate can be driven by our enterprise customers where we still have relatively low penetration and we had another successful quarter moving enterprise customers upward to higher plans as they grew their use of Matterport. License revenue was \$0.1 million, compared to \$3 million last year. As I noted on our last earnings call, license revenue can be very lumpy from quarter-to-quarter, depending on the timing of completed transactions and any associated implementation work that we must perform to recognize revenue.

Services revenue for the third quarter was \$3.3 million, up 41% year-on-year. We provide a variety of services, including in-app purchases and Capture Services. In-app purchases provide our customers additional digital assets for their spaces such as schematic floor plans or Scan to BIM files that RJ discussed earlier. Captures Services is an offering by which enterprise customers hire us to subcontract the capture of their spaces in high volume, enabling them to get onto our platform more quickly and at-scale. We offer Capture Services around the world by leveraging a large network of service partners. We also briskly expanded our footprint and availability of a new service, Capture Services On-Demand, now covering 80 cities in the US and another four internationally in the UK.

Our product revenue was \$8.6 million, up 4% year-on-year. We saw strong demand in the quarter and we're building momentum shipping at a record pace. Towards the end of the quarter however we started to experience impacts from the global supply chain constraints. We sold out of high-demand stock at the end of the quarter as a



result. Without this factor, we believe that we could have shipped up to an additional 15% of products in the third quarter.

Moving on to gross margin, our total non-GAAP gross margin for the third quarter was 55%. We increased gross margin for both subscription and services, while we had minimal margin contribution from license revenue in the third quarter. Our subscription gross margin was 77% up 240 basis points from a year ago. I am pleased with the continued growth of subscription margin, which was above our expectations. As we've noted before, we expect subscription gross margin to vary by 100 to 200 basis points from quarter to quarter as we invest in additional research and development activities.

Product gross margin was 23% that's compared to 37% a year ago as we continue to use our Pro2 camera as an on-ramp for subscriptions. As such, we routinely experiment with competitive plans and promotions to drive adoption.

In the third quarter, we started bundling accessories for the first time and launched promotions to share these offerings with our target audience. Accordingly, our product margin was lower than in earlier quarters this year, but consistent with our growth plans. Additionally, toward the end of the quarter, we began expediting materials where possible to meet customer demand which also increased our product cost of goods sold.

Reviewing non-GAAP operating expenses in Q3 research and development expenses were \$7.8 million, up from \$3.7 million in the prior year period. The growth and spending is planned and is primarily attributable to investments and head count to increase our product development capabilities and throughput. SG&A expenses were \$21 million as compared to \$9.5 million a year ago. We continue to invest in sales and marketing initiatives to drive further growth. We have also added capabilities in our G&A organization as we transitioned to being a public company in the quarter. Operating loss was \$13.6 million in the third quarter and as expected, compared to an operating profit of \$1.9 million in the year ago period.

During the early days of the pandemic in 2020, we right sized our cost structure to drive toward profitability, prioritizing that objective over revenue growth at the time. Now that we have strengthened our balance sheet considerably as a public company and as COVID's initial impact on the world economy has stabilized, we had planned to invest to drive rapid growth in light of the market opportunity in front of us.

Non-GAAP net loss was \$14 million, and diluted non-GAAP loss per share was \$0.06 for the quarter as expected using a weighted average share count of roughly 226 million shares.

Moving on to our balance sheet, we ended the quarter with over \$614 million in cash and investments. Having a strong balance sheet will give us tremendous flexibility to accelerate our growth both organically and inorganically over time.

Turning to our outlook, we believe the long-term opportunity and end market demand for Matterport remain intact, and our pace of product innovations further elevate our competitive moat. Notwithstanding our momentum, we know that the technology industry is facing supply chain bottlenecks and a tight labor market. We are taking a cautious view of those factors and updating our annual guidance accordingly.

We expect full year 2021 total revenue to be in the range of \$107 million to \$110 million. While this range is lower than our previous expectations of \$120 million to \$126 million for total revenue in 2021, we are continuing on our growth trajectory as 2021 is expected to be up from 2020 revenue of \$86 million and up from 2019 revenue of \$46 million.

I will next describe each revenue line in more detail to provide additional context. The biggest contributor to the change in our guidance range is attributed to the changes in our expectations for product revenue as outlined already; and second to change, which we believe is a positive over time, in how a customer's license transaction will be recognized. For the next quarter, we are seeing component shortages and extended lead times in the supply chain, which are impacting our ability to build Pro2 cameras in the quarter. Accordingly, we expect that we will experience a full quarter impact of these constraints, which means our expectations for product revenue are lower than they would be if the conditions were normalized.

Additionally, we are experiencing challenges in hiring to our internal plans in several areas, including in our capture services business. We expect our capture services growth to be constrained by this factor. Therefore, while we experienced record enterprise bookings at the end of the third quarter, we expect it will take longer for enterprise customers to ramp their digitization efforts under those contracts than originally planned. And some, despite solid order growth as we've increased our coverage area, it has been difficult to ramp up to meet the demand.

We are starting to experience the tight labor market and more than just our services groups. While we have been successful hiring key talent during the quarter, it has been difficult to hire all the personnel we need as quickly as desired to meet our goals.

We ended the quarter with 401 employees bringing on 75 new colleagues during the quarter. We are adding talent across the board in technology, sales, marketing, etcetera, to help achieve our plans. Expanding our workforce is crucial to achieving new levels of capacity and productivity. We are somewhat behind our head count plans, but we believe we can recruit. We continue to leverage our raised profile as a public company.

Moving to license revenue, we expect the Q4 license revenue to be consistent with Q3, which is under \$100,000. As we discussed previously, our license revenue can be lumpy. As of our Q2 earnings call, we expected a license transaction that was signed in the past to move to license revenue during Q4. We have been able to move this project forward very positively and we expect that it will be recognized in the fourth quarter. However, it will move directly into the subscription phase. We are pleased with this development because it meets our long-term objective with license transactions, which is to offer solutions on a subscription basis rather than on a one-time license fee basis. Thus the transaction we expect to recognize this revenue in the fourth quarter would be recognized not as a one-time larger license revenue item but recognized as recurring subscription revenue over the next several quarters.

We believe this is a net positive, as it validates our approach of bringing new features to market via a license structure and moving the arrangement to a subscription model.

Finally, with respect to subscription revenue, in light of our changes in expectations for product revenue and services revenue, we expect there will be some impact to our subscription revenue in the fourth quarter. Part of our growth in subscription revenue is generated from sales of our Pro2 cameras, which generate new paid subscriptions, and from growth in our Capture Services deployments, which generate both paid subscriptions as well as growth in existing paid subscription plans. With activities in those areas constrained, as discussed earlier, we expect to see a modest impact in the subscription revenue line item in the fourth quarter, although still expect subscription revenue to grow sequentially in Q4.

We also generate new subscriptions from customers who use third-party cameras to come onto the platform, including 360 cameras and smartphones. With last week's announcement of Matterport for Mobile, which includes



Matterport Capture for Android, we are optimistic that we will generate significant subscriber growth, which can lead to further subscription revenue growth.

Given the launch was just last week, it is premature for us to forecast revenue growth in the fourth quarter from this new offering and market expansion.

Finally, as we sit here today, we expect the current environment affecting technology companies to continue for some time into 2022. We will have a further update on 2022 in our next quarter conference call, and given that we do not see any change in the end market demand for our products and services, as the economy returns to a more normalized state, we would expect to grow our annual total revenue around the 50% range.

Moving to earnings per share, we are narrowing the range to a \$0.21 to \$0.25 non-GAAP loss per share for the full year from our previous range of \$0.17 to \$0.25. While our investment level is restrained compared to our original plans, we have also included in our EPS guidance expectations for a one-time litigation expense, that we expect to incur in the fourth quarter and which we had not included in last quarter's guidance. Our expectations assume a share count of approximately 202 million shares based on an estimate of weighted average shares. The share count could change based on future warrant and stock option exercise activity. Please refer to our investor presentation on our website for more information about the share count.

In sum, we remain very excited about our market opportunity. Demand is there and we believe we can navigate successfully through the economic turbulence. I am confident in our team's ability to execute. In fact, this team has successfully navigated other challenges in the past. Therefore, we expect to make steady progress towards our long-term objective, which is to digitize and datafy the entire built world. Now, I would like to turn the call back over to RJ.

---

## RJ Pittman

*Chairman & Chief Executive Officer, Matterport, Inc.*

Thank you, JD. In summary, I couldn't be more proud of our team and the innovation we are delivering to our customers every day. We are further cementing our already strong leadership position and we see significant potential for growth ahead.

I am very bullish on our strategy and outlook. It is a matter of timing, sequencing and navigating the waters ahead towards massive adoption. We are successfully managing the macro effects currently impacting the tech industry at large, and we are continuing to stay nimble, adapting quickly to minimize turbulence in the short-term. Our vision, strategy and long-term plans remain as ambitious as ever.

And we believe we are well on track to lead the industry over the next decade. As we've said before our growth opportunity ahead will be measured in years and decades to be captured through our proprietary technology platform, thoughtful execution and bold leadership.

Operator, we are now ready for questions.

## QUESTION AND ANSWER SECTION

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

**Daniel Ives**

*Analyst, Wedbush Securities, Inc.*

Q

Yeah, thanks. Can you talk about just scaling up more enterprise wide deals? I mean, obviously you have more success on large [indiscernible] (00:34:19) especially when we think about real estate and some of the other verticals. Could you just talk about from a pipeline perspective and just directionally how you see that trending from where it is today?

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Sure. Happy to. Thanks, Dan. As I've said before, the fastest growing and most exciting segment of the business at Matterport is the enterprise, and that absolutely continues to be the case through Q3 and will continue well through Q4 and into 2022. And there's a couple of reasons for that. One is these enterprises represent very large footprints, multiple buildings, hundreds, even thousands of buildings, and millions and millions of square footage of physical space to digitize, right. And it provides a very efficient mechanism for us through winning a large enterprise account to have long-term revenue -- subscription revenue upside from there.

And you mentioned specifically how we look at that from a residential real estate point of view, what we've been doing over the course of the last couple of years is migrating from Matterport's solution being deployed through SMB, small office, real estate brokerages and offices, into enterprise deals themselves, right? You've seen the various announcements, our global partnership with JLL and Cushman Wakefield. On the commercial side, we have similar enterprise engagements now with Compass and Keller Williams and many others where we are now working with much larger portfolios of residential real estate at once, right? And we are building Matterport's offering into the service offerings of the brokerages so that it becomes a much more seamless component of every listing in residential real estate. We continue to expand our partnership with Redfin and CoStar and Apartments.com and others, where there is enormous traffic from real estate shoppers out there that is putting Matterport front and center in front of all of that traffic.

**Daniel Ives**

*Analyst, Wedbush Securities, Inc.*

Q

And just a bit of a follow-up, when you think about partnerships like Facebook or Meta, is that something we should expect more and more of in terms of those types of partnerships, especially as we're starting to see more and more of a focus from tech companies especially moving to metaverse?

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Well, what Matterport's been doing for the past 10 years is reality capture, right? That is creating a dimensionally accurate, photorealistic digital twin of any physical space and creating a virtual instantiation of that. In fact, we've got the largest spatial library -- spatial data library of digital twins in the world. And if you think about technology partnerships like that with Facebook, this is a very important engagement for us for the advancement of AI and data science for autonomous agents, both physical robots and virtual agents and virtual assistants. Critical

foundational work that today can't happen safely or scientifically enough in the physical world, they need these virtual environments to advance those capabilities, and it's critical.

And Matterport is very keen to see these advancements that these groups make using our high fidelity precision digital twins and the implications of that become great value and we start to get insights and intelligence about how to interoperate in both the physical world, but also inside these digital twins. And let's remember that every Matterport digital twin on our platform is VR-ready. And they happen to look great, they're quite immersive inside an Oculus headset or really any VR headset for that matter.

And we've known this for years, right. Our platform is providing a proliferation of VR-ready content from Matterport to millions of 3D digital twins, including museums, historic landmarks, stunning properties and destinations all over the world. It's easy to see how a platform like ours could be very interesting, very relevant in the future of all of these virtual platforms that are getting created, including the metaverse.

---

**Daniel Ives**

*Analyst, Wedbush Securities, Inc.*

Q

Thanks.

---

**Operator:** Thank you. Our next question comes from John Walsh of Credit Suisse. Your line is open.

---

**John Walsh**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good afternoon.

---

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Hi. Good afternoon.

---

**John Walsh**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yes. Great. So I guess the first question is kind of around the expectations of the Android launch. Obviously, you're going to be covering a big installed base for modeling purposes. Should we think the slope looks similar to the iPhone deployment, just on a potentially higher number of devices? Or how would you kind of help us think about that slope?

---

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Sure. Let me take you through a couple of things. It's, they're not exactly the same through – it's not quite an apples to apples comparison. And the slope will be different. First and foremost, yes, the opportunity with Android is enormous. It's 75% of the global smartphone install base, right. So first of all, it's a massive footprint and it's especially well penetrated internationally and for our expansion markets that we're focused on.

The benefits that Android gets is more than two years of R&D on smartphone capture that we worked on with Apple and iPhone that we're able to bring to the first version of Matterport for Android. So it is a much stronger and more mature product for a 1.0 than we've ever put out before. And as a result of that, we're also bringing it in first to our more mature markets. So rather than a broad umbrella launch to everybody and anyone, we are

focusing on bringing it out in a more methodical method across each of our key vertical markets, starting with travel and hospitality; and then moving to RRE or residential real estate; and then insurance and the enterprise. And so you're going to see a sequence of events and sub-launches that follow with this across Q4 and well across – all across 2022, in fact, in a rolling thunder fashion. And we believe that the combination of this with increased marketing and go-to-market for all of our Matterport for Mobile that includes iPhone as well, the powerful capabilities of iPhone Plus LiDAR are going to be not only our best mobile offering yet by far and away, but we think it also has the greatest growth potential for the future.

---

**John Walsh**

*Analyst, Credit Suisse Securities (USA) LLC*



Great. And then maybe as a second question, when we look at your R&D increase, can you talk about where some of that spending is focused on? And I'd love to get an answer in the context of you benefit from a lot of the camera and device R&D that Apple and the Android device manufacturers are obviously doing to improve their own hardware. So just curious within the context of that how you think about your R&D priorities and what are some of the projects you're funding?

---

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*



Sure. First, on that piece, our capture ubiquity strategy that moved us from being exclusively built around our own Pro2 camera, which still, for many of our markets, enterprise mid-market, SMB, it is an absolute workhorse and very critical to the strategy. But if we want to dramatically increase our rate of digitizing the built world, things like smartphone capture and third party devices are very important and benefiting from the R&D investments. Much bigger technology platforms like Google and Samsung and Apple is hugely beneficial to us. That enables us to shift more of our focus onto the platform. Matterport spatial data platform really represents the future of the company. We are building and deploying enterprise-grade add-ons and capabilities for all of our vertical markets that are dramatically accelerating our penetration and success in construction like we've talked about BIM file, in the insurance category with TruePlan and high-fidelity insurance documentations and claim processing. We're kind of changing the game after the capture with all of the value-added technologies and capabilities that we're bringing to the Matterport spatial data platform with much, much more to come there.

You've heard me talk a lot about the two phases of Matterport, Phase 1 being the digitization of the built world; and then Phase 2, what do we do with all of the data once we have it, right, and what we are providing for our customers, what we call the datafication of the built world, [ph] or (00:44:49) unlocking all kinds of digital building insights and analytics that can push the capabilities of their property and asset management much, much further and achieve much greater ROI and value increase using just the digital twin, right? And so, this is a very intentional part of the strategy that we embarked on a few years ago that allowed us to put the center of our R&D on the data side of the house.

---

**John Walsh**

*Analyst, Credit Suisse Securities (USA) LLC*



Thank you. Pass it along.

---

**Operator:** Thank you. Our next question comes from Brent Bracelin of Piper Sandler. Your line is open.

---

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*



Good afternoon and thanks for taking my question here. A handful of questions. Maybe I'll start with JD and finish with RJ. JD, you talked about some supply constraints impacting late in September. I think you framed that as 15%, little over \$1 million of product revenue. Should we think about that as the monthly run rate drag on product and should think more like a \$3 million potential drag on product in Q4? Is that the right thinking? And then, also, could you address timing. When would you think you could start to get more of a supply balance? Could that also impact next year or do you think you could get this supply chain constraints kind of fixed sooner than that? Thanks.

---

**James D. Fay**

*Chief Financial Officer, Matterport, Inc.*

A

Yeah. Yeah, thanks, Brent. So from the perspective of the constraints themselves, I did – and I think I did say this a bit earlier, I think it will continue into next year. It's a little bit unclear how long it will take for those to be – for those to subside for us, in particular. We're obviously working pretty actively on it now, working with our suppliers and working with the logistics channels to mitigate. And so, we'll update the group when new events occur in our next conference call, as we mentioned.

From the magnitude, yes, I think that 15 – one, five – percent sort of magnitude persistent to – into Q4. And while these macro events are in front of us sort of pacing our ability to deploy to the demand that's there, I think that scale of impact is appropriate looking forward.

---

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Fair enough. And then, did you see any sort of shift in the quarter as it relates to kind of the residential versus commercial mix, either on new subscribers or pipeline? Can you remind us the mix today and was there any sort of meaningful change in that mix that you saw in the quarter.

---

**James D. Fay**

*Chief Financial Officer, Matterport, Inc.*

A

Yeah. So we like to talk about the end-customer markets in terms of our five, now six key vertical markets. One, of course, is a big one, real estate. Inside of that, we have residential real estate and commercial real estate kind of the promotion use cases you could say. And then the other vertical markets from facilities to insurance, travel and hospitality, and so forth. So in terms of the mix, we often talk about real estate and all other. Real estate in the quarter was about two-thirds of the revenue. That has been consistent over the last several quarters. And then, of course, the all other is the balance.

And in terms of going forward, we've actually have an increasing number of very meaningfully sized enterprise bookings in not just real estate, but also in the other vertical markets. So, I think it will be a bit dynamic, but I think you'll see as well the other vertical markets start to grow as a percentage of the total, as those larger bookings start to deploy over the next several quarters.

---

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Kind of helpful color there. And then, I guess, two quick ones for RJ, if I should. 2021 has been a transitional year. Obviously, you completed the merger recently here. You obviously now are dealing with some supply constraints. How should we frame kind of the second half of this year? Is this really a transitional year where you're really focused on trying to drive acceleration next year? Help us just can you maybe frame kind of how we should think about Q3, Q4. How should we think about the opportunity that you have looking out to 2022?

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

That's right. First, yes, it was a transformational year for Matterport in many respects with, of course, going public right in the middle of the year. So we didn't have the benefit of a full-year post-transaction use of proceeds to really fully fleet up and scale up this business in a full four-quarter period, where we're coming hot out of the transaction in the middle of Q3 and we are accelerating. And we've been accelerating year-on-year in all of the right ways. But there's no question that 2021, we have been laying the foundation and building the capacity in the organization for the next stage of growth at Matterport, without a doubt.

And despite some of the challenges that we're seeing out there in the market, it's very dynamic, it's very competitive for talent, we are faring extraordinarily well, I would say, amongst our peers. A couple of interesting data points for you. As we mentioned, we've added over 75 people to the organization, which is a relatively large number when we were sub-300 people prior to that quarter, gives you a sense of the percentage of growth in the organization. And of the candidates that are coming in, we're seeing over 90% acceptance rate, which is really top of the industry, and it shows the strength and interest and appeal of Matterport as a future career of choice for a very large employee base that we're going after.

So, I'm feeling very encouraged by it, despite having to navigate these challenges. I think we're faring better than quite a lot of companies out there. And in addition to building and bringing to market a number of our new commercial offerings, which you could see quite a few of them that came to market in Q3 and even right here at the start of Q4, there's going to be a few more coming, there's a lot of building that's happening in this quarter that's setting us up for greater acceleration in 2022 without question.

**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Great. So, my last question is on 2022. A lot of new things here as we think about GovCloud offering, Android, you're expanding Capture Services into 80 cities, obviously international push. What are you most excited about? As you think about all these things here, what are you most excited about as you think about the opportunity you have for 2022? Thanks.

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Sure. There's a lot to be excited about here at Matterport. I think our strategy is firing on all cylinders. Our geo expansion represents an enormous untapped opportunity, especially in Asia Pacific, where we're really scaling up our [ph] nascent group (00:52:32) and footprint out of our Singapore headquarters. Europe also represents tremendous growth opportunity. The enterprise, as I've spoke about, I'm super thrilled with. It's our fastest-growing segment that we're continuing to double down on.

But the thing that really excites me most is datafication. And we are really rounding a corner now of unlocking tremendous value, tremendous revenue add-ons through the platform, right, and being able to tap into this spatial data and create a services platform after the capture, as I described. And we are putting an enormous amount of focus, attention and resources on really bringing datafication forward in 2022. It's really where we're building a big chunk of the future of the company on the just unlimited potential of datafication and the value proposition, not just from Matterport, but from our third-party ecosystem of fantastic enterprise developer partners and just enterprise companies in all of these verticals that are coming onto our platform every week sort of extend the value proposition and the offering of Matterport much further with our own technologies and solutions running on top of the Matterport spatial data into our top verticals. That's where I'm most excited.



**Brent A. Bracelin**

*Analyst, Piper Sandler & Co.*

Q

Helpful color. Very clear, and thank you for taking my questions.

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Thank you.

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

**Yun Kim**

*Analyst, Loop Capital Markets LLC*

Q

Thank you. RJ and JD, congrats on a solid quarter, especially on the [ph] user Pro (00:54:22). First, apologies for the background noise, I'm traveling today. RJ, following up on the earlier question, I know it's early, but what is your expectation regarding the monetization or conservation rate of the Android Capture versus the iPhone users? Meaning, the conversion rate to the paid subscribers. And also, if you can just give us any insight [ph] into what (00:54:46) geographical makeup of the Android versus iPhone app downloads.

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Sure. Well, it is super early days, we're just a couple of days into the launch, so I hesitate to make any bold predictions or extrapolations from the actual data. So, I'm going to refrain from doing that. But what I can tell you is, we have very strong expectations on conversion, on deployment, on adoption because of how large the Android market share and global footprint is. And I see it being at least as strong and at least as important and I think potentially reaching even further than Matterport for iPhone, just given the sheer volume and distribution of active smartphones out there in the world on the Android platform.

The difference that I will caution and point out is, it's not as easy to roll out to the entire installed base of Android because it's a very fragmented ecosystem. We have hundreds, if not thousands, of different handset manufacturers, and we have a matrix of almost as many different versions of operating systems and layers on top of the operating systems that these vendors will put on in a proprietary fashion. So, as you know, with all Android developers, that just adds a lot of twists and challenges to building a product that works great on every device. Having said that, we've got one of the best engineering teams in mobile in the industry, and we're making tremendous progress across the lion's share of the most important devices relevant to our capture need.

So with those pieces combined, I'm very bullish on the outlook of what Android can deliver for us. And it also provides a lower cost of ownership for our customers, right, for number one, they can just start using the phone in their pocket if they want to cross over to Matterport. Historically, an Android customer have to go out and buy an iOS device, right, a phone or a tablet. And that was not an automatic purchase consideration and we've phone or a tablet, and that was not an automatic purchase consideration and we virtually eliminated that now for really the entire globe of digital citizens.

So I have – because of that, my expectations are as high as they've ever been for the role that smartphone capture is going to play. And like I said, it's going to play an important role for us in some very new markets, including the enterprise.

**Yun Kim**

*Analyst, Loop Capital Markets LLC*

Q

Thanks for that. And then also, RJ, you made some impressive partner announcements over the past couple of quarters. Can you just talk about how those relationships have been ramping and when can we start to see some material contributions on these high-profile partnership announcements.

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Yes. The partnerships are going very well. And I think as an indication of the maturity of our enterprise platform, that third-party ecosystem I'm talking about, it's one thing to agree to terms and agree in principle to lock arms and go to market. But to have an actual technology solution that can deliver value immediately is what I'm most excited about, most impressed with. And I can say for a product that we haven't even formally begun marketing and advertising, which is Matterport BIM file, we've talked about a little bit earlier in the earnings call, is already at revenue and has already won some very notable customer wins, as a result. But it's a product that's not even been in the market for 30 days yet. And so, this is true of all of them.

Our Apex announcements in the retail category, bringing Matterport to the use case of remote facilities management for retailers that have thousands of physical locations that want to manage inspections, facilities and contents of buildings from anywhere in the world using just a cell phone that has been hugely successful with some of the biggest names in retail. And the list continues, right?

Our announcements with Verisk in the insurance category. For the past couple of years, insurance has been one of our fastest-growing new verticals. And the reason for that is being able to provide new technologies and capabilities for claims processing, claims assessment and management, and partnering up with arguably the biggest player in the industry with Verisk and their claims software platform has been an enormous advantage for us that's gotten all of these partnerships, not just sort of signed and activated, but really producing.

Nothing to report in terms of any specific expectations with the partners, but certainly from a go-to-market point of view, they've exceeded our expectations in the early going. So I'm looking forward to continuing to scale them very successfully in 2022.

**Yun Kim**

*Analyst, Loop Capital Markets LLC*

Q

Okay. Great. Thank you so much.

**Operator:** Thank you. Our next question comes from Sophie Lee of Berenberg. Your line is open.

**Sophie Lee**

*Analyst, Berenberg Capital Markets*

Q

Hi. Thanks for taking my question. I just wanted to ask a question on the Android launch. Right now, you have a pretty impressive conversion rate of 8% conversion from free users to paid users. And you say that free users usually convert within 45 days. So if we bring in a lot of Android users to the mix, how would you see the conversion rate and time to conversion change?

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

Yes. So, again, we haven't set any specific parameters or defined expectations specifically for Android at this point, and certainly just a few days in would be a little premature for us to call that. Again, what I can tell you about it is, there are some things we need to understand with the dynamics of the specific personas and profiles of the Android customers that are coming to Matterport, but we believe that we're going to have long-term equal, if not greater, success with the Android platform and all of our new Android customers as we have with iPhone. And as I get more road under the tires and a bit more traction with it, I will definitely be keeping everybody posted. But we're very excited about it and very optimistic about the road ahead with Android.

---

**Sophie Lee**

*Analyst, Berenberg Capital Markets*



All right. That's very helpful. Thank you. Just one more question on the expansion opportunity for real estate customers. So Matterport already has top residential and commercial brokerages as customers. But what does the expansion opportunity look like? Is it signing on more models or are they requesting to use more add-ons or expanding use cases in other locations globally? And how should we, like, think about the magnitude of these expansions for large commercial and residential real estate brokerages?

---

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*



Yes. First and foremost, it is expanding the digital footprint. We're supremely focused on digitizing the built world because it is such a massive TAM, 4 billion buildings, 20 billion monetizable spaces out there, once digitized by Matterport. That is what we're going after. [ph] So when (01:03:01) we look at residential and commercial, we're signing all of the biggest residential brokerages in the world and the largest commercial real estates brokerages in the world, as well as all of the large technology, real estate technology portals to the Matterport platform and partnership ecosystem as well. And what we're keenly focused on there is making sure that the digitization throughput gets us close to 100% as possible, right?

We want every building, every space to have its digital twin. We've made it free if anybody wants to pull out their smartphone in their pocket and do it themselves, or commission it through Capture Services or their brokerage that's now going to have Matterport built in. So we have been laying the foundation for that globally, and there is still work to do internationally, without a doubt, especially Asia Pacific and parts of Europe, where we're continuing to put our hooks in and continuing to establish Matterport as the digital twin standard there. It's going very well, but it's earlier days.

So the geo expansion's a key part of that. And that's the sequencing as we see it, right, really pushing for digitization, really pushing for geo expansion. And then the datafication and the add-ons are right behind it, because many of our customers that have been with us now for even six months, but certainly those that have been with us for a year, two years or five years, all are asking for value-added insights, analytics, add-ons for everything from virtual staging to a, call it, a personal appraisal of a property and for documenting purposes for long-term insurance records. And we love that, right? These are the kinds of things that are both bringing our developers to the platform that have a lot to offer and to sell as add-on subscriptions to our customers, with a great unit economics for the customer and great business for the Matterport ecosystem. And that's why I'm so excited about datafication and the future of the company.

---

**Sophie Lee**

*Analyst, Berenberg Capital Markets*



Okay. Sounds good. Thank you.

**RJ Pittman**

*Chairman & Chief Executive Officer, Matterport, Inc.*

A

You're welcome.

---

**Operator:** Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may all disconnect. Have a great day.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.