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Call Participants

EXECUTIVES

Ajei S. Gopal
President, CEO & Director

Gal Munda

Rachel Pyles
CFO & Treasurer

ANALYSTS

Adam Charles Borg
Stifel, Nicolaus & Company, Incorporated, Research Division

Alexei Mihaylovich Gogolev
JPMorgan Chase & Co, Research Division

Brent John Thill
Jefferies LLC, Research Division

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

Joshua Alexander Tilton
Wolfe Research, LLC

Matthew Vincent Martino
Goldman Sachs Group, Inc., Research Division

Saket Kalia
Barclays Bank PLC, Research Division

Taylor Anne McGinnis
UBS Investment Bank, Research Division

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Procore Technologies Fiscal Year 2026 Third Quarter Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Gal Munda, Investor Relations. Gal, please go ahead.

Gal Munda

Good morning, and welcome to Procore's 2026 Third Quarter Earnings Call. I'm Gal Munda, VP of Investor Relations. With me today are Ajei Gopal, President and CEO, and Rachel Pyles, CFO.

Further disclosure of our results can be found in our press release issued last night, which is available on the Investor Relations section of our website and our periodic reports filed with the SEC.

Today's call is being recorded, and a replay will be available following the conclusion of the call. Comments made on this call include forward-looking statements regarding, among other things, our financial performance, our platform, products, our partnerships, customer demand, AI, DroneDeploy, and our business strategies and operations. You should not rely on forward-looking statements as predictions of future events.

All forward-looking statements are subject to risks, uncertainties and assumptions and are based on management's current expectations and views as of today, November 4, 2026. Procore undertakes no obligation to update any forward-looking statements, except as required by law. If this call is replayed after today, the information presented may not contain current or accurate information. Therefore, statements made during this call should not be relied upon as representing our views as of any subsequent date.

We'll also refer to certain non-GAAP financial measures to provide additional information to investors. A reconciliation of non-GAAP to GAAP measures is provided in our press release and our periodic reports filed with the SEC.

And with that, let me turn the call over to Ajei.

Ajei S. Gopal
President, CEO & Director

Good morning, and thank you for joining us. I'm excited to report that our business continues to perform exceptionally well with outstanding financial and operational results for the quarter. Procore has built one of the most essential vertical software platforms. We are at the center of the construction industry, capturing information, automating workflows and enabling collaboration among every stakeholder on a project.

We operate where the physical and digital worlds meet, driving designs and decisions into the field and turning jobsite realities into actionable intelligence. We believe we are well on our way to becoming a next-generation AI-native construction management platform and a true system of intelligence for construction. One that automatically sees what happens on the jobsite, understands what it means and acts on it. Such a system will deliver meaningful efficiency and safety gains across the construction life cycle, saving our customers time and money.

This quarter, we completed our acquisition of DroneDeploy, which adds visual intelligence to our platform and accelerates our transformation. I'm also delighted that the executive changes we made earlier this year are already making a difference.

Procore now has a veteran team with deep vertical software experience that is working well together and driving outstanding results. At Groundbreak, our customer conference, we hosted more than 5,000

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attendees, and what I heard from customers there strengthened my belief in our portfolio and the value it delivers.

I'm more confident than ever that the strength of our business, our ability to execute and the depth of our customer relationships gives us a clear runway to durable growth, meaningful margin expansion and compounding free cash flow per share. Q3 picked up where Q2 left off, and both revenue and margins came in above the high end of our guidance.

Revenue for the quarter grew 18.7% year-over-year, or 17.1% year-over-year excluding DroneDeploy, and non-GAAP operating margin was 23.5%. Given this momentum, we are raising full year guidance beyond our Q3 beat.

Rachel will share the details shortly. Growth this quarter came from all 3 of our customer stakeholders, general contractors, specialty contractors and owners. GCs are our largest segment at about 60% of our business, and we see opportunity in both new logos and expansion. For example, in Q3, we signed a new contract with Suffolk, a top 25 ENR contractor and long-time customer, to leverage Procore to standardize their project and financial management workflows into more of their many projects.

The company uses Procore to consolidate field-to-office workflows and improve project team performance and efficiency. One of our largest contracts this quarter was with Schneider Electric Secure Power, a specialty contractor that designs, builds and manufactures data center infrastructure. As the company ramps up production to meet hyperscale AI demand, it is expanding Procore usage across the Secure Power organization and broadening the solution scope to include project execution and resource management to connect engineering, program and project management, and construction field operations, with the goal to unify the customer execution and experience from deployment through handover.

Owners are another important part of our business. And in Q3, we added a notable new one, a U.S. government agency. This contract was won in part thanks to Procore for Government's FedRAMP Moderate authorization. The agency is replacing both a competing solution and spreadsheet-based project tracking.

By standardizing drawing distribution and version control on Procore, the agency aims to eliminate manual revision management, enable real-time reporting and meet federal security requirements.

During Q3, we completed our acquisition of DroneDeploy. As a software offering, DroneDeploy works across various hardware environments, including drones, ground robots, mobile devices and cameras. Connecting what Procore already knows about a project with what DroneDeploy sees on-site is how we build the system of intelligence I described earlier. Product integration is underway, and our early focus is on expanding the pre-acquisition connectivity between the 2 product suites, connecting data sets and bringing DroneDeploy's AI agents into Procore AI.

Moving to go-to-market. I'm excited about the revenue synergy opportunities ahead of us. At the time of the acquisition, Procore and DroneDeploy shared approximately 600 customers, which shows clear demand for the 2 product suites working together. Beyond expanding within those customers, we see significant near-term cross-sell opportunities in both directions.

Procore customers can add visual intelligence that works natively with the Procore tools they already rely upon. And many DroneDeploy customers are owners to whom we can introduce the full set of Procore's owner solutions.

Rachel will discuss the combined financial outlook shortly. Procore's shift to an AI-native company builds on 4 advantages, which are hard to replicate.

First, user data in context. More than 3 million active users this year, more than 20 years of project data and activity history, and now DroneDeploy's approximately 20 trillion square feet of visual data.

Second, security and trust. Customers already run their most important projects on Procore's platform, which is designed to be secure and compliant.

Third, our network effect. Dozens of companies work together on Procore in every project and each new project can bring more of them onto the platform.

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Fourth, action. Procore is where decisions turn into work on the jobsite. We believe these 4 advantages empower us to use AI more effectively to both augment our flagship products and to create new offerings. We are using AI to make our flagship products more powerful and easier to use. This helps us attract new accounts and expand usage within existing customers.

Take submittals, one of construction's most labor-intensive, schedule-critical workflows. A submittal shows the GC and design team exactly what a subcontractor plans to install, and nothing gets ordered or installed until it's approved. The GC runs both ends. It builds a log of every submittal the spec requires, sends it to subcontractors and then approves or rejects each response.

Our Submittal Builder, part of our flagship project management offering, builds that log. It cut days of combing through spec books down to minutes, but it only read the submittal section of the spec book. Our recent AI upgrade reads every section in full. It catches requirements buried elsewhere like warranty and closeout items and fills in each submittal's type and title.

Teams start from a far more complete log and finish in a fraction of the time. We're also building products that weren't possible before generative and agentic AI, including Procore AI Go and our Digital Coworkers, which became generally available in Q3. One of them, the Submittal Review Agent, handles the GC's review at the other end of the workflow, a problem software hadn't previously solved.

It checks each submittal against the specs and contract, flags deviations and unapproved submissions, and drafts a response. McCownGordon, the Kansas City GC, shows how the pieces fit. It is already standardized on the upgraded Submittal Builder, and they recently signed on for Procore's Digital Coworkers, using the Submittal Review Agent to check subcontractors' responses.

In one case, the agent caught 10 door openings missing from a submittal before the error reached the field, avoiding costly rework. Procore AI Go, introduced at Groundbreak, is a voice-first mobile app now in beta. Crews ask questions about the drawings, specs, RFIs and submittals and hear the answers without stopping work. Through a new collaboration with Meta, workers can use Procore AI Go hands-free on Meta AI glasses.

On a construction project, one question is rarely a single task. Answering it can mean pulling dozens of records from multiple tools and checking each against the current drawings and specs. Version 3.0 of Magpie, the reasoning engine behind Procore AI, breaks questions like these into parts, sending specialized sub-agents across the project and returning answers with cited evidence. Based on our internal testing, we believe Magpie outperforms the leading frontier models on construction tasks.

At Groundbreak, we also reaffirmed our commitment to improving the core products our customers rely on every day, and we are delivering. Beyond our new AI offerings, we shipped more than 500 new capabilities in the last 12 months. We have delivered every major product that we announced at last year's Groundbreak in GA or beta. That track record is what earns us the right to introduce customers to new technology. And as we saw at Groundbreak, customers are excited about our new AI offerings. Procore AI Go and Procore's Digital Coworkers enable customers to see what's actually happening on a project, understand the impact of decisions and then take action to change the outcome. That's real value for customers. It offsets labor shortages and saves time and money.

We believe that the opportunity is large and that AI will help us unlock labor budgets that sit outside traditional software spend. At Groundbreak, we introduced new and expanded partnerships. NVIDIA's CEO, Jensen Huang, joined us virtually to announce that we are extending our digital twin capabilities beyond AI data centers to other megaprojects, including healthcare facilities and critical public infrastructure. The solution, now in closed beta, lets teams see a project in realistic 3D and understand how disruptions would ripple through the schedule, so they find problems earlier and avoid costly rework.

Switch, a joint Procore and NVIDIA customer, designs, builds and operates advanced data centers. Switch uses 3D visualization to gain greater clarity into construction progress, make better-informed decisions earlier and keep complex projects on schedule. We also announced a partnership with IBM that creates a continuous flow of asset data from the jobsite into IBM Maximo, IBM's enterprise asset management software.

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For many owners, asset handover is still slow, manual and error-prone, with turnover packages assembled from spreadsheets and untagged photos. Partnering with leaders like IBM lets us focus on our strengths while reaching a broader customer base.

To summarize, Q3 was another excellent quarter for Procore. We exceeded the high end of our guidance on every key metric and raised our outlook for the year. We delivered new capabilities across our flagship products, made Procore AI's Digital Coworkers generally available, and closed and began integrating DroneDeploy.

All of this serves our vision and mission of improving the lives of everyone in construction. With a platform that connects those stakeholders, a growing AI portfolio and an experienced leadership team, we are well positioned for durable growth, meaningful margin expansion and compounding free cash flow per share. I'm excited about what's ahead.

I want to thank my colleagues around the world. Their hard work drives our success and our customers' success. And with that, I'll turn the call over to Rachel. Rachel?

Rachel Pyles
CFO & Treasurer

Thanks, Ajei, and thanks, everyone, for joining us. Before I get into the numbers, a note on how I will present them. With the DroneDeploy acquisition closing on September 9, I will review our Q3 results excluding DroneDeploy, consistent with the guidance we gave in July, and I will also give you the consolidated figures.

For the outlook, I will provide the total revenue, including the inorganic contribution of DroneDeploy. The supplemental presentation on our website shows the bridge between the two. As Ajei highlighted, we had an excellent Q3. Excluding DroneDeploy, revenue was $397 million, up 17.1% year-over-year, an acceleration from 15.8% in Q2.

That was $13 million above the high end of our guidance range, our largest dollar beat since 2023. Revenue outperformance was driven primarily by stronger bookings and the consistency with which they landed throughout the quarter, including $5 million from DroneDeploy. Reported revenue was $402 million, up 18.7% year-over-year. Our non-GAAP operating margin, including DroneDeploy, was 23.5% and was 400 basis points above the high end of our range.

Free cash flow was $73 million, an 18.1% margin, including approximately $19 million of one-time cash costs at the closing of DroneDeploy, primarily the accelerated vesting of certain DroneDeploy equity awards. Excluding these one-time costs, free cash flow was $92 million, a 23% margin, up 36% year-over-year.

Our Q3 international revenue grew 30% year-over-year, or 26% on a constant currency basis. We ended Q3 with broad-based momentum and strong execution across our portfolio. The improvement in large deal execution that we highlighted in Q2 continued this quarter and was the single biggest contributor to our booking strength.

Our new go-to-market leadership team has improved our execution, and we are now seeing the success of that work. We are seeing customers continue to commit to larger, more strategic partnerships with us, which speaks to the critical role we play in their operations.

The quarter was well balanced among our stakeholders, and that balance gives us confidence as we head into the final quarter of the year. Our booking strength in the quarter is also reflected in CRPO, which grew 22.6% year-over-year excluding DroneDeploy, an acceleration of approximately 70 basis points from Q2. Most of that growth came from the strength of our underlying bookings, particularly the large strategic expansions we signed in the quarter. Average contract duration increased again, but by less than in Q2. Including DroneDeploy, CRPO grew 28.9% year-over-year, with DroneDeploy contributing approximately 6 points.

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Turning to profitability. Non-GAAP operating income was $94.4 million, and our consolidated non-GAAP operating margin reached 23.5%, a year-over-year improvement of approximately 620 basis points. That improvement reflects the operating leverage in our business model and disciplined spend, and it comfortably absorbs the modest dilution from closing DroneDeploy in the quarter. Most importantly, this quarter is a further step along the trajectory of profitable growth we outlined last quarter.

Next, a brief update on DroneDeploy, which we closed on September 9. As a reminder, we acquired DroneDeploy for $845 million in cash. We financed the transaction with cash on hand and the proceeds of our $950 million 0% coupon convertible notes due in 2031, which we issued in August. Concurrent with the convertible note offering, we repurchased approximately $175 million of our shares. We believe that the demand for that offering was a strong signal of support for our strategy as we continue to invest in best-in-class solutions to deliver on our vision of improving the lives of everyone in construction.

Our financial view of the transaction is unchanged, and DroneDeploy's early performance is in line with our expectations, with revenue tracking slightly ahead.

DroneDeploy contributed $5 million of revenue for the approximately 3 weeks since close, and our guidance includes approximately $19 million of inorganic contribution in Q4, or approximately $24 million for the full year.

The acquisition is accretive to our revenue growth, and we are absorbing its near-term margin headwind while still raising our FY '26 margin guidance and reiterating our FY '27 outlook. We will continue to disclose its inorganic contribution separately through Q4 and then provide a view of the expected inorganic contribution for FY '27.

We ended the quarter with $614 million in cash and investments. Separately, our Board has adopted a new share repurchase authorization for $300 million, consistent with our prior program.

With that, let's move to our outlook. Our approach to guidance is unchanged from prior quarters. I will give you Q4 and full year guidance on a reported basis, including DroneDeploy's inorganic contribution. The bridge is included in the supplemental materials on our website.

For the fourth quarter, we expect reported revenue between $420 million and $422 million, representing year-over-year growth of 20.9% at the high end.

That includes approximately $19 million of inorganic contribution from DroneDeploy. Excluding DroneDeploy, the range is $401 million to $403 million, or 15.4% growth at the high end. Q4 non-GAAP operating margin is expected to be between 15.5% and 16% on a reported basis, which includes dilution from DroneDeploy.

For the full year, we now expect reported revenue of $1.557 billion to $1.559 billion, representing year-over-year growth of approximately 17.9% at the high end, which includes approximately $24 million of inorganic contribution from DroneDeploy. Excluding DroneDeploy, that is a raise of approximately $21 million at the high end.

We are also raising our non-GAAP operating margin guidance for the year by 50 basis points to 19% at the low end and 19.5% at the high end on a reported basis, including the dilutive impact of DroneDeploy, which implies year-over-year margin expansion of 540 basis points versus 14.1% in FY '25.

Finally, free cash flow. We are maintaining our FY '26 free cash flow margin guidance of 19.5%, excluding the one-time DroneDeploy closing costs I described earlier. For the year, these costs total approximately $23 million, or 150 basis points. After accounting for those impacts on a reported basis, we expect free cash flow margin of 18%.

Looking ahead, we remain committed to driving sustained efficiency, and we are reiterating our FY '27 guidance for non-GAAP operating margin of 25%. As a reminder, our preliminary FY '27 operating margin target does not depend on the revenue growth outlook for next year, which we will introduce with our Q4 results.

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As we scale further, we will continue to optimize our cost structure, including tailwinds from AI efficiencies. In that context, we disclosed at Groundbreak that more than 80% of our code is now written by AI.

In summary, we delivered an excellent quarter that showcases the strength of our financial model, with organic growth above our expectations and a significant step-up in our operating margin profile. Our execution over the last few quarters has been consistent, and we are taking that focus into the final quarter of the year.
With that, let's turn it over to the operator for Q&A.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Saket Kalia from Barclays.

Saket Kalia
Barclays Bank PLC, Research Division

Sure. Ajei, maybe for you. First of all, it's great to see the business accelerate organically. Maybe the question is, can you just give us a state of the union on how Procore's push to sort of gain more wallet share in the ENR 400 is going? And maybe specifically, how much is that sort of helping with this better growth versus maybe what seems like underlying improvement in the construction market overall?

Ajei S. Gopal
President, CEO & Director

Great. So Saket, thanks for the question. The overall macro from this quarter to last quarter is pretty consistent. And so there hasn't been any fundamental change in the overall macro.

And you asked specifically about large contractors. Look, they have -- when I talk to them, they're oversubscribed, they have really healthy businesses. They've got significant backlogs. And their constraint is really not having enough people to get the work done. So when I think about our relationship with them, there's a couple of things. There's the product and the go-to-market. So let me just briefly talk about product.

We have more product capabilities than we've ever had. And you heard me in my prepared remarks, I talked about the capabilities that we announced at Groundbreak and that we have through the year.

I talked about enhancements to the flagship products, how we are adding AI to the flagship products. And then, of course, all of this, the AI activity that we've put in place around the see-understand-act loop and the new products that we've built. It's generated a tremendous amount of excitement in the market, and you certainly saw that at Groundbreak.

And this is exciting to both existing as well as potentially new customers. And customers are thinking about how we can help them address some of these challenges. I mentioned this at Groundbreak, for OVG, an incredibly large contractor. They are looking at redoing some of their fundamental processes, rebuilding them because they have a profound shortage of skilled labor.

And they're working -- we're working with them around AI and using Procore Digital Coworkers to try to see if we can help them optimize their performance and drive some of these really large projects. So there's a lot of activity that I'm excited about from a product perspective.

On the go-to-market perspective, Walt is a proven operator, and I say that having worked with him for many years, and he's been personally involved in some of our largest deals. He's built -- he's bringing deep experience in building relationships at the most senior levels in our customers. And so those relationships are deepening and broadening. So we continue to see a lot of opportunity in large deals and with large customers.

Saket Kalia
Barclays Bank PLC, Research Division

Got it. That's great to hear. Rachel, maybe for you. First of all, thanks a ton for the clear disclosure on DroneDeploy. My question is around -- your customers continue to partner with you for longer durations. How do you think about the impact on CRPO? And do we still expect this growth to eventually moderate organically?

Rachel Pyles
CFO & Treasurer

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Sure. So as you noted, CRPO did go up this quarter, and we signed a lot of large strategic deals. If we take out DroneDeploy from the increase in CRPO, it was up 22.6%, so about 70 basis points faster than we saw last quarter.

Now most of that was underlying bookings. The contract duration did go up a little bit, but it went up actually less than it did last quarter. When we look at CRPO on a normalized basis, it's growing in line with revenue and ending ARR growth. And so I think we have not yet seen that duration stabilize. It is accelerating at a slower rate but not yet stabilized.

Operator

Your next question comes from the line of Josh Tilton with Wolfe Research.

Joshua Alexander Tilton
Wolfe Research, LLC

Maybe my first one, Ajei, your message has and continues to be that of durable growth. However, today, you're obviously accelerating growth. It sounds like the improvements in execution are driving better underlying booking trends. You also have new AI offerings. And I'll say everyone that I spoke to at Groundbreak about DroneDeploy was pretty fired up. So my question is, should we view this as the new baseline of durable growth for Procore?

Ajei S. Gopal
President, CEO & Director

Firstly, thanks for the question. I'm glad you enjoyed Groundbreak. Look, we're not giving any kind of long-term view of the business at this point. We're specifically, I think, talking about kind of where we are.

I think what you're seeing in our results is a reflection of both the product capability and our ability to execute. And I also think that the acquisition of DroneDeploy, as you pointed out, I think that's really very consistent, very consistent with our strategy on being able to see, understand and act.

And when you put all of that together, customers are seeing the innovation that's coming out of Procore. And customers are also seeing the relationship in terms of both customer success as well as the sales relationship moving in a really positive direction. So taken together, we're excited about our business, and we believe we bring real value to the market.

Joshua Alexander Tilton
Wolfe Research, LLC

Super helpful. Maybe just for a quick follow-up. Any clarification you can give us on the acquired deferred revenue from DroneDeploy, maybe just what the organic deferred revenue growth was in the quarter?

Rachel Pyles
CFO & Treasurer

Sure. So you'll see this in our 10-Q, but the opening balance sheet contribution from DroneDeploy is about $37 million of deferred revenue.

Operator

Your next question comes from the line of Brent Thill with Jefferies.

Brent John Thill
Jefferies LLC, Research Division

Ajei, you're one week away from, I think, your one-year anniversary. I'm just curious if you kind of look back and say what has surprised you the most? And then maybe if you could just talk about the international business. Good acceleration. What are next steps there to unlock what is your biggest opportunity?

Ajei S. Gopal

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President, CEO & Director

Look, I think coming on board as a new CEO, you obviously have to spend time on strategy. You have to look at the operational capabilities of the business and make sure that you have the right people to deliver against it. It's sort of the strategy, operations and people. Those are the kind of loops that are on a company.

And what I would say is I am delighted with the people that we have at Procore. We have people up and down the chain who provide incredible value to customers every day. Obviously, we've made some changes to the executive team. But we have experts who collaborate exceptionally well, and that's fantastic.

As far as the operations go, obviously, we've made some changes, but the results of the last few quarters should speak for themselves. And I'm really excited about the rate of innovation, the success that we're driving to the customers, and the depth of the relationships with our customers. I think it is something that is a unique hallmark of Procore.

And you certainly saw this reflected at Groundbreak. Strategically, we had to deal with, obviously, a very rapid change in the AI environment. And I think that I'm really excited about how the company has responded. We've talked about the see-understand-act strategic paradigm that has been the basis of driving some of the decisions that we've done, the acquisition of DroneDeploy, the new AI products, including things like Procore AI Go. All of those, I believe, are spot on.

And I feel like we're really -- I feel very excited because the capabilities that we're providing are resonating with customers. So it's been a really interesting year. And what I've particularly found gratifying is the relationship that we have, the depth of the relationship that we have with our customers, and frankly, the dedication of Procorians around the world to our success.

As far as -- you asked about international as well. So international, I think Rachel said that we've had another strong quarter. Revenue was up 30% year-over-year. I think it was 26% in constant currency. And that's not an accident.

If you look at some of our international success, it's been predicated upon having both the right product as well as the right go-to-market. And so what I talked about in the last call, I think it was the one before, I talked about how we're investing in a product that is specifically purpose-built for the U.K., Ireland and European market, a common data environment.

We focused on building that product. We completed that product. We released it, and that's been a real step forward that's resonating with customers. And of course, we have a good go-to-market around it.

Each local market has its own requirements. And so as we enter these international markets, it's about understanding the product-market fit and making sure we have the right capabilities and then, of course, building the go-to-market around that.

Operator

Your next question comes from the line of Taylor McGinnis with UBS.

Taylor Anne McGinnis
UBS Investment Bank, Research Division

Congrats on a really strong quarter. So first, you mentioned the strength was largely driven by your own execution, but hoping you could just give a bit more color on the areas that exceeded your expectations? When I look at the numbers, it looks like international was a big one and large deal activity. But when you think about the biggest unlock for the growth algo, I'm just curious if there's anything you'd highlight more specifically?

Rachel Pyles
CFO & Treasurer

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Sure. I'll start, and then Ajei can jump in here. For us, the growth was really broad-based. So it didn't come from any one particular place. We saw strength across our stakeholders, that's GCs, subcontractors, and owners. And then we also saw success both internationally and domestically. So really, the growth was broad-based.

Taylor Anne McGinnis
UBS Investment Bank, Research Division

Perfect. And then, Rachel, maybe just building off of that. If I look at the organic revenue growth guide for Q4, stronger than what we've seen in past guides. So one, is that indicative of the organic inflection you expect to continue to see in the business? And maybe secondly, I know you mentioned in your prepared remarks that the guidance philosophy remains unchanged. But just given the various levels of outperformance we've seen so far, could you just unpack the assumptions embedded in the guide?

Rachel Pyles
CFO & Treasurer

Sure. So for the full year, we did raise the guidance by $45 million at the high end. Now that included $24 million of inorganic contribution from DroneDeploy. If you set that aside, the underlying business is performing really well.

We beat the guide by $13 million this quarter. We flowed that through to the full year and then we're also raising the Q4 guide as well. So what you're really seeing is the momentum that we had in Q3 giving us confidence as we go into Q4. But nothing about our guidance philosophy has changed.

Operator

Your next question comes from the line of Joe Vruwink with Baird.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

Ajei, something that really stands out in your remarks today and also I hear from others, is wanting to see the jobsite. And it does seem like Procore has taken the most aggressive stance around capturing the visual elements of construction. I'm just wondering about all the strategic implications of this and whether the end outcome might actually be your ability to bring faster automation to customers if agents don't have to work through maybe established workflows or document-heavy workflows. If the path is faster -- if you're overseeing kind of the visual side of the site.

Ajei S. Gopal
President, CEO & Director

Joe, thanks for the question. I think at the end of the day, what -- the see-understand-act paradigm, we put that in place because if you anthropomorphize AI and you put it in a complex situation like a construction site, that's what you have to deal with.

You have to be in a position to bring the physical into the digital. You have to understand what's taking place, and it has to be based on what's actually taking place, not some theoretical view that someone built months ago. You need to know exactly what's happening. So that's the immediacy of the physical meeting the digital. That's why we needed to see.

And then, of course, the understand and act, I think, are fairly obvious. So the see-understand-act loop is really part of the way that we've been thinking about it and that's influenced a lot of the activities.

On the act piece of it, construction is kind of a unique vertical because you've got multiple stakeholders working together and there are real financial consequences to decisions. And you need to be able to log and understand those decisions.

That's one of the reasons why Procore has been successful, as we brought all of these stakeholders together in this rigorous environment, secure environment. And certainly, from our ability to act, it's being

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able to tag information so that people understand what drove decision-making. And so that's really an important aspect. So this whole loop drives the way that we've been thinking about our AI strategy.

Now as you extrapolate, you can take it in multiple directions. And certainly, I think you're referring to, can you see an extension that moves into robotics? Or can you see an extension in other areas? And those are all things for the future.

But obviously, we support robot cameras and things of that nature. But if you're thinking about full-fledged robotic construction, that's something for the future. But the reality is that this paradigm, this strategic paradigm gives us, if you forgive the pun, lots of legs as we build our business going forward.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

That's great. Thanks. If I can follow up, any stats to share on the adoption of the Digital Coworkers? I think this was the first full quarter of their broad commercial launch and it might just be too early still, but when you mentioned maybe capturing labor budgets, what that looks like in practice?

Ajei S. Gopal
President, CEO & Director

I think it's -- look, I feel really good about where we are. We're 3 months into general availability. There's a lot of demand. But as you know, we're early in the adoption cycle, and I think we're exactly where we need to be.

I think the technology is resonating. I'm really excited about Magpie 3.0, which is the reasoning engine we showed at Groundbreak, and I would direct you guys, there's a blog on Magpie that we just published today, and I would direct you to that. It shows it performs really well.

And in a cost-efficient manner, we're really excited about Magpie. And even though it's early days commercially, I gave you a couple of examples on the script. I talked about McCownGordon and earlier I talked about OVG. These are sophisticated customers, and they are seeing value in the technology, and they are using the technology to solve real and fundamental problems, one of their big challenges being how do I deal with the labor shortage supporting my industry. So we are excited about this, about what we've done, and we feel like we're in a really good place given how early the release has been.

Operator

Your next question comes from the line of Matt Martino with Goldman Sachs.

Matthew Vincent Martino
Goldman Sachs Group, Inc., Research Division

Maybe just taking a step back on Magpie. A lot of software companies are building their own layer between the model and the work their customers do. So as those underlying models get better, what does a company like Procore actually need to own to keep its advantage? And how does owning that piece change what customers will pay you for?

Ajei S. Gopal
President, CEO & Director

I think it's worthwhile -- maybe in response to your question, if you indulge me, perhaps it's worthwhile by stepping back and trying to take a top-down view on that question.

So I'll talk about the application, kind of what we have and what we've built. The first thing to recognize is our customers build buildings. Obviously, they'll run information technology. They'll use information technology. They're not in the business of building information technology, they build buildings. And construction is really unlike any kind of horizontal application or vertical application.

And there are a few reasons. I mentioned them already, and let me quickly go through them. One is scale. In construction, you've got hundreds of thousands of documents. You've got gigabytes of data, including

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multimedia data, that's spread across multiple locations. It's unstructured, and a decision that's captured in some document someplace could have a profound impact somewhere else on a schedule or it could trigger rework, and you need to be able to kind of have a broad view across all of this.

Secondly, I mentioned this earlier, it's the physical and the digital. You have to be able to reason about what's actually happening on the site as opposed to a digital abstraction of what's going on. You need to know what's really taking place.

The other thing is the application is being used by people who are physically on the jobsite. And you can't fire up a laptop and take advantage of technology. You've got to start to deliver technology in a manner that's appropriate. That means mobile, smart glasses, things of that nature, voice.

And as I said earlier, it's multiple stakeholders working together and that's real money, everyday decisions that are being made. And when a decision is made, you need to know who made that decision, otherwise billing and payments won't work. So you need a secure system.

I've talked about kind of a lot of the moat that we've built over the years, and I mentioned this in the script, so I won't repeat it, about data and users and context and security. And that's what gives us kind of the foundation on which to build.

And what we've built is essentially a multimodal index that reads the drawings and photos, meeting minutes, it reads them all. We have a construction ontology. An ontology is a live map of the construction logic based on our years of working in the industry, our decades of working in the industry, that connects documents, actions and decisions. And we can recognize patterns across these things before they can turn into rework.

And our reasoning engine, Magpie, which I talked about earlier, what that does is it breaks complex tasks down. It can route each step to the right tool, the right model, including open-weight models, and it can cite the drawing, the specification, or whatever it used behind every single answer.

So that's a lot of machinery that we've built. And then we've done acquisitions with respect to DroneDeploy. I already talked about DroneDeploy bringing visual intelligence into the Procore family. So the physical world comes in.

And then, of course, these new applications like AI Go and these Digital Coworkers. AI Go, obviously, supports mobile devices, the integration with Meta, with smart glasses, and of course the Digital Coworkers as well as AI inside our flagships.

That is a significant corpus of work. And we're excited about it. It's something that gives us, we believe, differentiation in the market based on our experience, based on our history, based on our understanding of the customer, the unique nature of the customer, what we've built, what we've acquired.

And we believe that this gives us the foundation for this rock-solid system of intelligence that delivers for our customers in a complex environment. So we're excited about this. It is an important aspect of our strategy, and we believe that we're well on our way to delivering what we need to.

Matthew Vincent Martino
Goldman Sachs Group, Inc., Research Division

Appreciate the perspective there, Ajei. Rachel, for you. Look, if the recent acceleration in organic growth persists, how much flexibility do you have to reinvest behind that momentum while still delivering the 25% FY '27 margin target? And are those productivity benefits you're seeing from AI materially changing that trade-off between growth investment and margin expansion?

Rachel Pyles
CFO & Treasurer

Yes. So I don't think that we are in a position where we have to make a choice on growth versus profitability. We're still investing significantly in the business. We're investing in new capabilities for our customers. We're investing in AI.

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What's really changing is the scale. So we've reached a point where we don't need to add operating expenses in proportion to revenue. You see that for sure in the back office, in G&A. So that means that every dollar of revenue is coming with higher incremental margins. The margin expansion that we're planning for is a natural result of the financial model. It's not about pulling back on the investment. And so I feel really good about our ability to continue to invest in the capabilities that our customers need while also doing it in a very profitable way.

Operator

Your next question comes from the line of Jay Vleeschhouwer with Griffin Securities.

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

Ajei, Rachel, earlier this year, you introduced 4 new bundles. Could you comment on the contribution of those new bundles to results so far and what your expectations might be for those? And more broadly, before I ask a follow-up, what is your philosophy towards product packaging and segmentation, particularly as the portfolio has become increasingly complex?

Rachel Pyles
CFO & Treasurer

So I'll start with your question on the bundling. So as you noted, we did roll out new bundles this year. What we like about those is that they give customers a way to expand with us depending on what they're looking for.

And so we have this concept of good, better, best, and you can kind of move through those packages and then you get more and more features and functionality depending on what package you're in. And so, for example, in some of the higher tiers, you would have access to more of the AI capabilities that are embedded within our platform.

And so I think those are performing really well. We've been really pleased with them, in particular, as we bring new logos on. That's a helpful way for them to kind of buy and sort of simplifies the buying experience for them.

Ajei S. Gopal
President, CEO & Director

And as far as the packaging is concerned, Jay, the bundles give us an opportunity as we think about packaging to figure out how we can add value to customers when we bring incremental capabilities in. So I'm thinking about tiers of capabilities. So if you think about some of the packaging that we introduced earlier, at the low end, you have a certain subset of capabilities.

And obviously, you've got more at the high-end. And as we start to introduce AI capabilities into the flagship offerings, for example, some of that can happen more at the higher-end tiers within some of these bundles and so we have an incremental ability to monetize some of those capabilities.

So it really gives us flexibility as we start to think about deploying products. As you note, we have lots of products, and it's fairly sophisticated. So selling a SKU at a time sometimes is less efficient than thinking about it from a bundle perspective.

Jay Vleeschhouwer
Griffin Securities, Inc., Research Division

You noted earlier go-to-market, and I just commented to a prior question regarding internal investing. A short-term question, over the last few months, there's been a bit of an uptrend in your open sales positions since the spring through the end of October.

On the other hand, the positions related to customer success or what might otherwise be called applications engineers, have been flat to actually tailing off a bit. Wouldn't it stand to reason that,

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particularly with all the new products coming to market and all the complexity in the portfolio we just talked about, there would be more of a rebuilding or addition to that field support or AE support capacity?

Ajei S. Gopal
President, CEO & Director

Jay, we've got a lot of great people across the company who are able to support our customers. As Walt is taking a broad -- and of course, customer success is part of Walt's organization. As Walt is taking a broad look and he's been with the company for about 6, 9 months, as he's taking a broad look at the go-to-market, he's organizing his teams in the most effective way that's necessary.

Operator

Your next question comes from the line of Adam Borg with Stifel.

Adam Charles Borg
Stifel, Nicolaus & Company, Incorporated, Research Division

Awesome. Jump ball for either Ajei or Rachel. When we think about the data center opportunity, it was great to hear continued momentum in the customer example you talked about. Maybe talk a little bit more about the momentum of the business, the current size of the business. And if you just think about the recent election results from last night, does that have any impact on the data center market opportunity for you guys? And then I have a follow-up.

Ajei S. Gopal
President, CEO & Director

Yes. So let me start, and then I'll turn it over to Rachel. Look, data centers are clearly important, and they're a very complex build. AI factories, as they're sometimes referred to, are complex. They're sophisticated. They need to be built quickly. And that's exactly the kind of complexity that Procore can help solve.

But it's important to understand that our exposure -- we price on annual construction volume. Many of our customers are building data centers, of course, but they're also building hospitals and they're building warehouses and they're building residential, multifamily and manufacturing. They build multiple things. And we're exposed to that entire nonresidential and multifamily end market, not just to one segment. I mentioned earlier that many of our customers have a significant backlog.

And that backlog is across the spectrum of market subsegments that they support. And so they're not building one thing, they're building something else. Their gating factor is labor. Their gating factor is the ability to be able to get to the backlog and to be able to move forward.

So our exposure to data centers is roughly in line with the overall market. Obviously, we're very capable of supporting these complex builds, which is why, as customers are building, you certainly see that and you see us highlighting that. But at the end of the day, you have to understand that we are tied overall to annual construction volume, and our large customers do multiple things, not just data centers.

Adam Charles Borg
Stifel, Nicolaus & Company, Incorporated, Research Division

That's really helpful. And maybe just as a follow-up for Rachel, I really appreciate all the inorganic disclosures across the business. One I was curious about was just DroneDeploy and your international exposure. So any color there on, of the $5 million in the quarter or the $24 million for the year, how we should think about international versus domestic? And any color on inorganic to total RPO as well would be really helpful.

Rachel Pyles
CFO & Treasurer

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Yes, sure. So on international, we haven't disclosed that specifically, but you should think about it as roughly in line with the Procore business, so not different than our core business, not having a significant impact on those splits at all.

And then in terms of the inorganic contribution on CRPO, so as I mentioned in the prepared remarks, if you exclude the contribution from DroneDeploy, growth in CRPO was 22.6%, up from 21.9% in the quarter prior.

Adam Charles Borg
Stifel, Nicolaus & Company, Incorporated, Research Division

That was great. I was just talking total RPO. Any color there? If not, really appreciate it.

Rachel Pyles
CFO & Treasurer

No, I don't think that we have disclosed that.

Operator

Your next question comes from the line of Jason Celino with KeyBanc Capital Markets.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Maybe this is a build off of Adam's question. But if we annualize the Q4 revenue from DroneDeploy, we get like $76 million, I think. When you acquired it, I think you had said $78 million on a last-12-month basis. Is there something about the Q4 seasonality with DroneDeploy? Or are there certain accounting haircuts? Maybe that is my first one there.

Rachel Pyles
CFO & Treasurer

Yes. So when we announced the deal, we said that DroneDeploy would be accretive to growth, dilutive to margins and cash flow breakeven. That's exactly how it's playing out.

So in Q3, it contributed $5 million of revenue. That was for roughly the 3 weeks after September 9. For Q4, we expect the inorganic contribution of $19 million. So that's about $24 million for the full year. And then to give you a sense of scale, their trailing 12-month revenue as of September was about $83 million. And we're absorbing the margin dilution in our 25% target for FY '27.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Okay. Great. That's very helpful. And then nice to hear the U.S. agency win. I'm just curious, is this the first U.S. agency that you have as a customer? And then curious if there is a percentage of revenue that you have in your business today that you attribute specifically to public sector?

Ajei S. Gopal
President, CEO & Director

Yes. No, we obviously have U.S. government customers. But this is about FedRAMP because FedRAMP is really an important aspect of this particular contract.

And what's important to recognize is that we have customers who deal with both federal business as well as nonfederal business. They're not GCs uniquely focused on just the federal business. I mean, there may be some, but many of them will do everything, including federal.

And so having that capability, the FedRAMP capability, helps us certainly with GCs who are specializing in the federal business, but it also helps us more broadly across other general contractors who are looking at a broad portfolio of activity, including federal. So that was an important piece of work that we did earlier

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this year. We were very proud of the rate and pace at which we were able to get that done, and that's obviously yielding results.

Rachel Pyles
CFO & Treasurer

And then just to add on that, in terms of the contribution, if you think about what Ajei said, it's not just specific U.S. government customers, it's really broader than that.

So from our perspective, we see FedRAMP as helping us not only get public sector business, but also customers see that designation, and that kind of assures them of the security of the platform. And so we think about it as helping us across a broader base than just the public sector.

Operator

Your next question comes from the line of Alexei Gogolev with JPMorgan.

Alexei Mihaylovich Gogolev
JPMorgan Chase & Co, Research Division

Congrats on great results. I wanted to start with gross margin. Rachel, it stayed at 84% even as AI products and DroneDeploy consolidated. So what's the sensitivity of gross margin to AI compute at scale?

Rachel Pyles
CFO & Treasurer

Yes. So first of all, AI is already built into our core products. And as you noted, our gross margins have been stable. So while there is some gross margin impact from our new agentic Digital Coworkers, we're seeing efficiencies elsewhere in the business, and we've contemplated all of that in our 25% operating margin target for FY '27. We don't see AI as a structural risk to the margins, and that's really for 3 reasons.

So first, we price our agents on usage. So customers are committing to a level of consumption. Cost is a component when we consider that pricing.

Second, the cost of AI is coming down. Models are getting smarter. You don't need the most sophisticated models for every task. And so it's about using the right model for the right task. That's very similar to what we saw happen with cloud infrastructure costs and how those came down over time. Same thing is happening with AI, just at a much faster pace.

And then finally, third, customers really want certainty over their spend. So we introduced Control Tower. We demoed that at Groundbreak, and customers can use that to see exactly how much their team is using and spending. We're not selling an all-you-can-eat AI solution.

Alexei Mihaylovich Gogolev
JPMorgan Chase & Co, Research Division

Okay. And Ajei, very strong gross revenue retention of 95%. Could you maybe decompose what's driving that renewal execution versus pricing or customer health? And are you seeing any churn, downsell, concentrated thing in cohorts, specs versus specialty or domestic or international?

Ajei S. Gopal
President, CEO & Director

Nothing stands out. It's very consistent. Our business performance is very consistent as it has been in multiple quarters. That 95% is pretty consistent across multiple quarters. Look, at the end of the day, what customers care about is are we able to help them solve their problems, and they want to be able to build buildings.

They want to be able to manage those buildings. We sell to GCs. We sell to owners. We sell to specialty contractors. And what you're seeing is innovation across the portfolio that's giving them the tools that they

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need to be able to do their jobs. And so obviously, that shows up in the performance of our business, and I'm excited about that.

Operator
We have reached the end of our Q&A session. This concludes today's call. Thank you for attending. You may now disconnect.

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