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<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Hi, everybody. My name is Jason Celino, and I'm the Vertical Software analyst here at KeyBanc. I am pleased to welcome Procore's CFO, Paul Lyandres, who is with me today. Procore completed its IPO in May. Maybe as a quick warm up for Paul maybe you can just give us a brief recap of your background and the really simple version of maybe what Procore does.

<<Paul Lyandres, Chief Financial Officer>>

Sure. Well, I'll start by just saying thank you for having me here and for those who are joining appreciate you all, carving out some time. My journey at Procore was very interesting one. I actually started in the world of venture capital, worked for a firm called Bessemer Venture Partners, and we led the first institutional round in Procore, back in 2014. And I somehow convinced our founding CEO, Tooey, to – let me come join on the ride, and over that last seven years, it's been a heck of a journey, leading up to as you just said our IPO here in May. It's funny. I was saying to you earlier, we've spent some time really trying to explain to the different audiences what it is that Procore does. And we've kind of found a few different ways to articulate it, so at the highest level we have our vision and mission.

Our vision is to improve the lives of everyone in construction. And the way we want to do that is by connecting everyone in construction on a global platform. And there is a lot to the words connecting and global, but what you all should take here, the one that we will use for our grandmothers and our parents is that, we build the software for the people who build the world. And really what that means is we are focused on a construction management platform. That's our owners, general contractors, subcontractors from the pre-construction phase, all the way to the time that the contractors hand the keys to the owners, whether that's a school, a hospital, a high rise, you name it.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Excellent, excellent. And I forgot to mention, but we do have the ability to take questions. So if anyone from the audience wants to keep this interactive, there should be a small box at the bottom of your screen, where you can submit them. I'll try to read those anything and any, but maybe for our first one, you've talked about this in length on the earnings call last week, but have you seen any signs that the higher building costs or the staffing challenges are impacting your customer's confidence, their project backlogs or an investment appetite?

<<Paul Lyandres, Chief Financial Officer>>

Yes. I think that one of the things I've learned over the years is that this industry has been solving problems for decades, centuries, right. It's one of the oldest trades out there. And it doesn't feel

like at any time in that centuries of work has it been called minis? There are always challenges. There are always struggles, and this industry is just always amazed me with their resiliency, their ability to tackle these problems as they come on and find ways to do what they do, which is build. And so when we look at the specifics things like higher building costs, do they make things more challenging? Yes. I think where we've seen the biggest challenges is actually in that kind of long tail of residential, where we've all read the articles of how housing is skyrocket and lumber and what that's meant to a house.

But our – the bulk of this industry is constantly working through negotiations, trying to figure out estimates, working through those backlogs and those staffing challenges. And so I wouldn't say its impacted confidence. These backlogs are things that when you think about what they are, they're the schools, the hospitals, the roads, the things that we have to build, our industry has to grow because we can never forget that the combination of population growth of people moving around, right. It used to be urbanization now with COVID, it's really just migration. And the fact that you can see in things like the infrastructure bill, this need to constantly reiterate on the things that the assets we've already put out there mean that there isn't an opportunity to not have this backlog, to not do these buildings. It's just a function of how we get through it and that's where I have no doubt. And they are to our customers that this industry will work through these challenges.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. No, that's a good example. Its things that have to get build. So I guess maybe double clicking on it a little bit, the skilled labor shortages or the staffing challenges in particular, you know, the construction industry has historically been slow, right? So when we think about the industry, I think they've been fine being over budget, delayed, labor intensive why can’t that be the status quo?

<<Paul Lyandres, Chief Financial Officer>>

Yes, I mean, look, there is a constant challenge these days in getting enough skilled trade folks to the table, right? There's this massive wealth of domain knowledge that lives in these folks who have been in this industry for decades. And one of the areas that not having technology has hurt over the years is that knowledge transfer is difficult, right? It's done in the field.

And so as the industry continues to grow, this shortage in labor is actually only extending this challenge that is there aren't enough people everything's getting more complicated, and now with COVID, you built up this backlog of things that didn't necessarily get built, work got built slower, and now we have this huge demand that's coming back, but the ability to attract the talent to give them the best technology is something that we believe has to happen.

The days of continuing to throw bodies at the problem of tolerating, what are some pretty crazy statistics out there, we're talking about hundreds of billions of dollars of waste. McKinsey did this great study that said if the construction industry's labor productivity had just tracked to the average of the major industries, we'd add back $1.5 trillion to the global GDP. And so the thing about this is that the staffing shortage is just one of the benefits that technology helps to alleviate,

but we believe that the future of this industry is partnering with technology and really removing the things that make – this is not a fun job, right? Double data entry, manual things that are not why people got in this industry, they got into it, because they love to build, and that's why we believe that, we will partner with the industry that to work through this labor shortage, but we also do a ton of work to help sell the – what is so great about this industry to bring more people into it.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. So that's a good point. And then maybe if we just think about Procore's portfolio here, so do you guys like to talk about helping your customers drive more volume, et cetera, but as investors, we don't come from a construction background, we don't necessarily use the products ourselves. So how are some modules use, what are the - who are they used by, and what is the outcome that they get?

<<Paul Lyandres, Chief Financial Officer>>

Yes, I mean so, we have this great ROI study that I will point you all to get the hang of the laundry list, but it's everything from helping to reduce risk to help bring projects closer to on time and on budget. And the staff that I think to me and myself are most proud of is this one that says buy – and this comes from our customers, of course, that by adopting Procore, they're able to do 29% more work per person.

And when you think about what it is that we do that enables it really is this long kind of list of tasks and complex workflows that have spanned many stakeholders. And I can give you a couple of examples that are more stories that we've just always found fun of. Hey, there is this concept in construction called progress photos, and you have to in order to do your billing to get paid, you go around and you take photos of everything to show the work you've done.

And we remember this contract who told us the story of to do this. They'd take their digital camera. They'd go up all these flights of stairs, half the time that they forget their SIM card, the storage memory card, or before they go back down, uploaded on their computer. And they'd have to then drive from site-to-site and be the person who does this like.

Today, iPhone take a photo, attach it to the drawing, tie it to the hours of work you've done and roll that into an invoice. There is a another one that used to joke of we had a customer a long time ago, who would call us and say, Hey, thank you so much for what you do. We don't have to build this third and fourth warehouse. And we were a little confused, like, well, we help build, how is that a good thing for us and their joke was that third and fourth warehouse was to store the documents for the construction they were doing.

And if you can imagine a lot of these projects ends up in litigation that meant sending some poor intern out into a building to go figure out where the change order was that validated that this work was done or the inspection or those progress photos. And this is true. These workflows are everywhere from change orders. So for those of you who are build things, that's kind of that dreaded word in construction, how you roll up your invoices, how you manage your drawings

and your specifications. It is just a litany of complex processes that we help automate connect and just make simple.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, good. Those are good examples. Maybe switching gears a little bit and, you know, you just reported last week, so I'm sure, you've gotten some questions on how the quarter line, but one of the things that kind of stuck out to me was you mentioned, improving customer sentiment, improving project backlogs, growing volumes these are all to be expected, but how does it compare on pace like expectations may think of that?

<<Paul Lyandres, Chief Financial Officer>>

Yes. I mean, we love to use this analogy internally at Procore. I think, you may have heard us say it on the earnings call of - we see this industry as an oil tanker, not a speed boat. They're certainly industries. Yes, I joke like you can't go on the Amazon, put a five story building in your car and have it delivered three days later.

It's just not how the industry works. And so when we think about this backlog, when we think about the sentiment, I think it very much is how we kind of envisioned this world would come together. Because the things that I had said earlier, that the things that paused in COVID, they're not things that we don't do anymore. We still need those schools, those hospitals, those buildings, it is just a function of delaying, and so now we're seeing that work come back.

We're seeing that sentiment continuing to grow. And the things that we still really want to convey to the investor community is as those things come back, it's all positive news. It's just the amount of time it will take from the design to getting the actual contractor, bidding it out, starting to work. These will flow through it more slowly than it might - than you might think. And for any of you who want to test this, go try to hire a contractor right now and do any remodeling within your own house and you'll understand how long it takes from the moment you want to do it to when you see progress in your house.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Yes, no, that's a great example. We just put a patio in and we were talking to the contractors and that stuff's not going until December?

<<Paul Lyandres, Chief Financial Officer>>

Even though, you're their backlog. You're the example. If you want to do it, you have no plans if you could get it done tomorrow, you would, but there is just a process that has to happen.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. So that kind of leads me to my next question. So we look at these industry outlooks from like ABI and Dodge and they're calling for this accelerated recovery in 2022, it sounds like that would also kind of apply to programs.

<<Paul Lyandres, Chief Financial Officer>>

Yes, no, it definitely would. And it again goes back to - it's not an, if it's a win, it's a timing dynamic take the ABI that's the architectural billing index, right. That is really saying, who is going out there, hiring architects to start designing buildings, the lead time that's even before you hire your contractor for the patio, right? And so this is all the dynamics of that oil taker. It's slowed down a bit during COVID, now it's gearing back up, but I've personally never driven one. I just always imagined what it means to for an oil tanker and exactly what happens.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Yes. Okay. And then maybe one last question and then we'll move on. But not very nice operating margin in the quarter. Good out performance to me, what drove it. And then given the improvement, does this change anything to your long-term margin improvement framework?

<<Paul Lyandres, Chief Financial Officer>>

Yes. So there's three things I point out that really drove kind of the operating expense improvement there. The first is just expenses ramping slightly slower than we have planned. That is a combination of several things. The largest ones really being returned to office and kind of a more accelerated plan than is coming to fruition, travel and entertainment, right.

We are an industry where we like to go out and see our customers and attend events. And then of course, we are hiring as fast as we humanly can and are really excited about the talent we get in. But I do love the anecdote I got from our head of recruiting, which is there more wrecks out there for recruiters than there are for engineers right now, which is just a symbol of how competitive the world is today.

So that's kind of item one. Item two really is just better than expected revenue. And that is helping with the operating profit profile there. And then the last piece is a change we did to our non-GAAP definition, which actually standardized how we treat all stock-based comp expenses. So we'd been backing out stock-based compensation itself, but this is really the payroll expense associated with it, which does save us about $4 million in the quarter and $6 million for the year.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, excellent.

<<Paul Lyandres, Chief Financial Officer>>

I should actually add. We are going to continue to invest aggressively and I would not tell you it's the new normal, because we just see such an amazing opportunity and kind of plethora of things that we can do to solve for this industry. And we still believe we're in the early annex.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, good. Then moving on to market competition a little bit, $12 billion TAM, 50% is still Greenfield, I am surprised by how much Greenfield is left. I guess, where is it coming from?

<<Paul Lyandres, Chief Financial Officer>>

I mean, it is really important to kind of think through the construction industry dynamics to understand why it's still so Greenfield, right? If you think about our industry, it is something that is in the field is crossed across many different companies. You're talking to them since dozens of different companies, not people, but companies in order to get a project done and gosh, mobile Wi-Fi, like these didn't even make it to the job site until 2010, 2012, you needed the iPhone, the iPad.

And so unlike many industries that have benefited from SaaS, but are still largely concentrated in the office. This is an industry that could not really be revolutionized by technology until the last decade or so. And so when we think through ultimately why we believe that it's this combination of technology coming together the buildings and the process just getting more and more complex, the labor shortage that you talked about just getting harder and harder.

And the fact that those who do adopt technology are able to leverage data in a way that others can't, and that makes them better, more efficient in what is a low margin competitive industry. And so as much as it seems surprising from one angle, when you really think it through, it's not actually that surprising why we're here. And so you then kind of think about, well, 50%, these are people who are still whiteboards, excel, pen and paper, cell phones like that is their standard operating procedure. And the challenge for them is, is that where they don't benefit, is that they see that waste those hundreds of billions of dollars we talked about, the delays, the over budget, these are almost just baked into the process, and I will again point to any of you have done a home remodel. And if I could do a raise of hands, I wouldn't be surprised if the whole room raised their hand on being over budget behind schedule.

And so that's still the lion's share. We do then bucket our competition kind of this three other buckets, we've got a legacy set of providers who were really more on premise, kind of still amazing software today, but very much focused on kind of accounting ERP, a solution that is, it does make sense that it can be on-premise and successful. There are what we really think of as partners, right? With 300 partners in our app marketplace, and while all of those do different things and could be seen as a competitor, we think of them so much more as adding to the value of the ecosystem and making us better. And then I think there's the competitors that we would often think about in this world as our primary competitors. We kind of call them the big three and Oracle, Trimble and Autodesk, and we have a lot of respect for them. And we think that our focus, our dedication, our commitment to our customers, our platform like these are things that make us differentiated. But there's certainly a formidable competitors.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. And then any change in the competitive landscape between the three within the last year or so?

<<Paul Lyandres, Chief Financial Officer>>

No, I think that we continue to stay really mindful of the strengths, the weaknesses of these different folks, and do our best to both partner where we can, I should say in almost every instance, those three companies I'm acquired a large number of solutions, we actually integrate with a lot of those acquired solutions. But we also have just found ways to coexist and believe that's a massive market.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. And one more question here, and this has to do with your differentiated pricing and user model, given the construction industry already prices based on volumes and you unlimited user model is better suited, or maybe the complexities and the many stakeholders, why don't you remain competitors priced that way?

<<Paul Lyandres, Chief Financial Officer>>

I'd tell you probably – probably I have to ask that. At the end of the day, as I had said, there is a lot of solutions that live within those big three names. And there isn't actually I think any one pricing model consistent across all of those different solutions. I can tell you why we priced the way we do and why we believe really strongly that is the right approach for the mark. So just too kind of set the stage. Our pricing model is not based on users. It's not based on projects. It's not based on consumption, right? We price based on annual construction line, essentially how much building is that owner sub-GC going to do on Procore and then the mix of products that they buy and the scale. So, fairly standard in terms of some of those dynamics, just that the unit of metric for us as construction volume, and what that lets us do is have unlimited users.

And that means that at no point in time in the journey is any player deciding, do I need this person in my solution to complete this workflow? Do I want to pay for them to be there for a month or six weeks or whatever, but when they don't, those workflows break, that data isn't complete and the value associated with your technology is diminished? And so we believe that in order to truly bring that to leverage technology in this industry and to make the biggest impact we have to connect everyone. And that means reducing the friction associated with being part of that platform and ecosystem.

Now, it does also mean that across our 1.5 million plus users, 60 plus percent of them, they don't pay us. They're what we call collaborators. There are those subcontractors, the owners, and they a part of the project and are able to do the work they need to do to be successful on that project. But it also gives us this opportunity to have more touch points with them and to find ways to

deliver solutions to them that are valuable and unique for their needs. And so it's got a lot of benefits and how we think about that pricing model.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, great. I mean, moving on to international, this is a big part of your growth opportunity. Which countries do operate in today and how do you decide which countries you want to expand into groups?

<<Paul Lyandres, Chief Financial Officer>>

Yes, so it's an interesting story for us and that I do believe we are a bit unique at Procore into how we thought about the international markets. We spent the first decade plus of Procore really building out the technology, the platform, expanding to different stakeholders, knowing that we felt that the United States was arguably ahead of the curve in terms of adopting technology and the product market fit. And so it wasn't really until 2018 that we made a dedicated and concerted effort to start going internationally.

And the thing to know about Procore is we are very deliberate in the markets we enter, the way we go to those markets. Our intent is not to doubt. If we're going to do something, we do it because we have strong conviction that it's part of our vision and mission. And then it is important to the success of the business and the industry. And so we started in 2018, really focused on Australia and New Zealand, saw continued success there as we built out leadership marketing, like that's really critical to know this industry is very referenced customer driven. There's a lot of trust. There's a lot of partnership that it takes to help to be successful there.

Since 2018, with the start of Australia, we're now in nine countries, the big regions we really service these days include an Asia Pacific, Latin America with our Mexico City office. The European hub, which is London for us, and we just added Singapore and the UAE for us, those are both meant to be hubs from which we can not only really start in those countries, but service the broader Southeast Asia market abroad Middle east market. We now believe that we have good coverage across the major regions in the world.

And now the next set of expansion is really to go deeper into some of those larger, more complex economies that allow us to again, build out that reference-based, build out that kind of solid team and leadership, Oregon. So you will see us only continue to invest in international. I think you may have heard us on our earnings call out that international is 14% of revenue. And so we absolutely think we're still early days, but we're really proud of the success we're seeing in those markets. We think we have a lot of pattern recognition from our earlier markets to our more recent markets. And we do expect to continue to see that share grow quite meaningfully overtime.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. So, I mean, when we think about construction, construction is construction. So it's global. So you mentioned it's 14% of your revenues. So is there any reason why Procore couldn't have

the same type of 50% to 60% international mix that we see with other global software companies?

<<Paul Lyandres, Chief Financial Officer>>

I don't think so. No. There is no reason; the market to your very point is global. If anything, it is almost more – potentially more global than some of the other TAMs that you'll see out there by nature of it being where populations are, where people are, where buildings are being built. And so for us, it is just a function of focus. And as we look out into a lot of those markets, we are going into; we see a lot of similarities to what the United States look like five, 10 years ago as we really hit our footing in the states.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay. We actually just got a question. So how hard is it for Procore to break into a new region? How much of the existing software or tech can be reused or applied to those regions?

<<Paul Lyandres, Chief Financial Officer>>

Yes. So it's important to note that while I said we didn't deliberately start focusing on international until 2018. Today, our software is run in 125 plus countries. Our customers who are based in those nine countries that I spoke of, they do business all over the world. And it's because as you honestly said earlier, construction is construction, document, management, workflows, financials, pre-construction, this is a consistent problem set across the world. And so what's important what we do and why we're so deliberate in that international expansion is that this industry is local.

Customers want to know that you're not an American business just showing up for a fleeting period of time and that you're committed to their customers, their local area that you've hired people that you have referenced customers. And so for us having projects pretty much all over the globe, having customers who we can reference, he's a great way for us to start off. And it's less about I would say the difficulty of entering a market and that focused commitment to being successful in it and appreciating that. You can't do everything at once well, and so you have to be really thoughtful about how you sequence.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, great. And I think we have five minutes left, but I did want to hit on some of your TAM expansion opportunities specifically in the payments, I want to look like. Why is it significant, and don't all these construction are already do payments fine?

<<Paul Lyandres, Chief Financial Officer>>

Gosh, she left me four minutes to answer a 30-minute question. Okay. Well, I do want to reiterate what we've been telling the investment community for some time now, which is when we look at the markets we're in the products we sell the stakeholders we serve. So owners, subs,

GCs, 13 products, just the international markets we're in today. We believe that we can continue to see sustained growth for a meaningful amount of time, because there is a massive TAM and a huge opportunity.

Now, I don't want that to say we plan in any way to slow down. But when we think about our TAM expanders, we really – payments, data, these things start to be what we think of as kind of ACT2, ACT3 it's where we have this ability to take the software we have, the customers that we have acquired and partnered with and find new and interesting ways to help themselves problems. Payments is actually quite complicated, right? It's not just a function of moving small dollar cents between accounts. You have to deal with compliance. You have to prove the work you've done. So you've got to show the billing hours, the invoices for what you bought, those progress, photos, inspections, release of lease, roll that up. Every subcontractor has to do that. They all then get rolled up to a general contractor that rolls it up to an owner at every step along the way they get set back reviewed, redone, and then the payment is released.

And by nature of that it, it delays that payment release. It makes what is probably one of the most acute problems in our industry, even harder, which is this working capital problem. And so when we think about the payments opportunity, we think about everything around data and insurance and materials financing, and these different opportunities. They are another extension of improving the lives of everyone in this industry and making this industry more and more efficient and productive. And these TAMs are massive, but we're very clear to say, they're not in our model today. There is still early initiatives that we're working towards, and we think that, they're really important to the longer term vision, but I never want to lose sight if where we are today and all the opportunity we have to continue to build a massive business with just what we have in market already.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, perfect. And I think we have like a minute left. Any closing thoughts that you want to leave us as we think about Procore and head into maybe the summer and eventually next earnings, et cetera?

<<Paul Lyandres, Chief Financial Officer>>

I think that I would leave you with, this is an industry that we – every Procore employees deeply passionate about. We think that it's got so much opportunity and there's so much we can do to partner to make it better. We are really see ourselves in the early endings and that we are looking for partners for investors, who see that vision who see this long-term opportunity and want to be a part of that journey, a part of that ride and help touch the lives of pretty much everyone, because no matter you would say to yourself, all of us know someone in construction and even those of us who don't, we are all impacted by it.

<<Jason Celino, Analyst, KeyBanc Capital Markets>>

Okay, great. And with that Paul, thanks so much for participating today. It's been a pleasure and hope you have a good rest of the week and we'll talk soon.

<<Paul Lyandres, Chief Financial Officer>>

Awesome. Thanks for having me, Jason.