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Procore Technologies, Inc. (PCOR)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. ladies and gentlemen. Thank you for attending today's Procore Technologies FY 2022 Q1 Earnings Call. My name is Tia, and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions-and-answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Matthew Puljiz, Vice President of FP&A and Investor Relations with Procore Technologies. You may proceed.

Matthew Puljiz

Vice President - Financial Planning & Analysis & Investor Relations, Procore Technologies, Inc.

Thanks. Good afternoon, and welcome to Procore's 2022 first quarter earnings call. I'm Matthew Puljiz, VP of FP&A and Investor Relations. With me today are Tooey Courtemanche, Founder, President and CEO; and Paul Lyandres, CFO. A complete disclosure of our results can be found in our press release issued today, which is available on the Investor Relations section of our website. Today's call is being recorded, and a replay will be available following the conclusion of the call.

Comments made on this call may include forward-looking statements regarding our financial results, products, customer demand, operations, the impact of COVID-19 on our business, and other matters. These statements are subject to risks, uncertainties, and assumptions, and are based on management's current expectations as of

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today, May 4, 2022. Procore undertakes no obligation to update any forward-looking statements to reflect new information or unanticipated events, except as required by law.

If this call is replayed or viewed after today the information presented during the call may not contain current or accurate information. Therefore these statements 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.

Additionally, we may refer to certain results as organic, which we generally define as business performance or results that exclude the recent acquisition of Levelset. However, with respect to our customer count metrics, we define organic to mean customers under Procore contracts.

With that, let me turn the call over to Tooey.

Craig F. Courtemanche

Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

Thanks, Matt, and thank you, everyone, for joining us today. First and foremost, I want to start by acknowledging the events occurring in Ukraine and throughout the region. Although our business has very limited exposure in the region, this situation is devastating and our thoughts and support with the people of Ukraine. Procore is continuing to find ways to assist and be helpful, where possible.

Now turning to the business, we had an excellent Q1 as we exceeded our expectations for the quarter. I continue to be so proud of the team, our momentum, and what we've achieved. The strong performance we delivered didn't just come from one place. We saw notable strength across the spectrum of stakeholders, customer size and geographies, from owners to GCs, from the enterprise to small businesses, and from the US to APAC.

Additionally, we had a record quarter for pipeline generation, setting us up for great momentum through the rest of the year. It's important to look at our performance in the context of the broader environment we're operating in. Many of the investors we speak with have an initial perception that the macro environment is challenging to our business. But the reality is that despite the challenging environment, construction activity is robust and customers tell us that they've never seen stronger and healthier project backlogs. That said, the overall environment remains dynamic and we will continue to inform you of what we see. Our strong performance is demonstrated by our Q1 results, and the positive indicators that we're seeing from the industry today lead us to remain highly optimistic and confident that we'll continue to execute against our plan as we support the industry and our customers in meeting their growing project backlogs.

One of those positive indicators is how our customer base continues to expand and grow. So I'd like to share some notable customer stories. First, we continue develop relationships with specialty contractors. RIPA & Associates is a civil and utility contractor with almost a 1,000 employees. They needed a single, unified platform to drive efficiency and collaboration across their organization. Procore enables RIPA to consolidate their software and data sources replacing and integrating several legacy point solutions. Ultimately, Procore helps them improve internal reporting, leverage data more efficiently, and reduce overhead costs to maximize employee productivity. And this is so important given the persistent labor shortage in the industry.

You may all recall that last quarter I described how we view the large market opportunity within enterprise GCs in the US and I am happy to share that we obtained a seven figure expansion win with one of the largest general contractors in the US. They decided to standardize on Procore across all of their projects due to a groundswell of support from their field teams after multiple successful pilots. In addition to support from their employees, we were

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able to demonstrate our superior user experience our mobile capabilities and our robust financial suite. This ultimately gave them the conviction that Procore was a substantial improvement from their existing solution. This is yet another great example of the huge growth opportunity we still have in what is considered to be the most digitized part of the market.

We also brought on board a number of notable owners, including another seven figure relationship with one of the largest multinational telecom companies on the planet. This customer has been using our platform for the past decade through a third party, but ultimately became a direct Procore customer in order to own and better manage their data in-house and becoming a customer they also adopted our financials product in order to integrate it with their financial systems. This will allow them to benefit from streamlined budget processes, centralized reporting and increased efficiency.

In previous quarters, we shared wins with large government agencies. And this quarter, we landed one of the nation's largest state public power organizations representing our largest public sector deal to-date. After being a collaborator on the platform for many significant projects, they decided to become a Procore customer due to our product strength, our ability to integrate with their existing systems, and our singular focus on construction.

And finally, we continue to gain traction internationally. Ryman Healthcare is a retirement living and care options provider in New Zealand that's growing rapidly with several sites in their development pipeline. Their priority is to design and build the best retirement villages in Australia and New Zealand on time and within budget. After evaluating competitive and incumbent solutions, they identified Procore as the preferred platform to support their continued growth and ultimately they purchased all of our product lines. Procore will enable them to transform how they manage construction projects by providing more accurate forecasting, improved collaborations between job sites and their offices, and a reliable source of truth for project documentation.

Our customers are also staying with Procore because of the value we deliver. I am particularly proud of our partnership with Lee Lewis Construction, a large US general contractor with a seven figure total contract relationship with Procore. After coming under new management and doing a competitive search to explore cheaper alternatives to Procore, Lee Lewis Construction ultimately decided to stay with Procore. They later shared with me, "we looked into other options for price, but we stayed with Procore for the value." We look forward to continuing to serve Lee Lewis and building upon our partnership for many years to come.

These customers joining, expanding and staying with us underscored the value our customers are getting from the Procore platform and the true partnership we provide. The strength of our customer relationships is also illustrated by our recently updated and published 2022 ROI Report. We surveyed thousands of customers globally to gain insights into how they leverage Procore to grow their businesses. And I'd like to share a few highlights from the report.

First, customers responded that Procore enables their project teams to manage an average of 48% more construction volume per person. The importance of this cannot be understated given the persistent labor shortage the industry is facing. When the industry can't hire more people to get more work done, the only answer is improving efficiencies so each person can accomplish more. Procore is helping making this possible.

Second, 75% of customers surveyed agree Procore has helped reduce the amount of rework on their projects and of those who agree, they report an average reduction in rework of 16%. And so let me remind you, on average, contractors run single digit gross margin businesses, and our customers have little room for error. And yet, as we've shared before, on average, the industry spends over $500 billion a year on rework. Reducing unnecessary rework by 16% can have a massive impact on these businesses. That reduction will only increase

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as our customers adopt more products, leverage more integrations and roll Procore out across all of their projects.

Best way we can help them grow their businesses is enabling them to run more efficiently. And finally, 74% of customers surveyed who are using Procore app integrations agree that these integrations have made their businesses more scalable. This is so important for extending the value of the Procore platform so that we can provide our customers with an ecosystem of solutions that's both comprehensive and customizable.

I want to say that I am incredibly proud of the positive impact we're having on our customers and the industry and it's especially rewarding to see how Procore is helping our customers build more scalable and efficient businesses so they can tackle the industry's biggest challenges and focus on what they do best, which is building the world around us.

We're able to help our customers tackle these challenges not only through the deep partner integrations we have, but also with the highly strategic acquisitions we've made to build out the platform. One of the biggest challenges the industry faces is managing risk, including financial risk and the ability to get paid on time. And on this front, I'd like to share an update on one of our most recent acquisitions. Last November, we closed Levelset and the business continues to perform well. As I previously shared, one of the reasons we acquired Levelset is because of their strength in lien management, a critical component of enabling Procore to manage complex compliance workflows. And I am thrilled to share that I was recently able to see an early demo of how the lien waiver experience is being integrated with our invoice management product. It is so exciting to see such progress. I cannot wait to release it into production so our customers can benefit from this integration. This is an important step towards our goal of creating the best invoicing compliance experience for the industry, and it also gets us one step closer to the payments opportunity. I am incredibly excited for what's to come and I look forward to updating you all as we progress.

I also want to emphasize that our broader M&A philosophy remains unchanged. By nature of the broad and evolving industry we serve, we will occasionally make acquisitions to ensure that we have the most comprehensive platform that can solve construction's unique challenges. The majority of the time, these acquisitions will be smaller tuck-ins of companies that we know very well and in many cases they integrate with us through our app marketplace, but both the volume and cadence of M&A in 2021 were unique, and folks should not expect that volume or cadence to be the norm. In fact, we are entirely focused on integrating what we acquired last year and ensuring our collective teams and products come together in an elegant solution that advances our mission to connect everyone in construction on a global platform.

As CEO, I focus a lot of my energy on finding our next great leaders. As Procore scales, we are continually investing in our people and building out the best leadership team to drive long-term durable growth. You've also heard me talk about how passionate I am about the impact data we will have on the construction industry and my intentions to make Procore a data-first company So I'd like to share an exciting update on both of these fronts. Just last week we welcomed Joy Durling as our first ever Chief Data Officer. She'll be acting in an elevated and expanded CIO role leading Procore's data strategy as well as our information technology and product and information security functions. Prior to joining us, Joy held various leadership roles at Vivint and Adobe Systems, where she focused on elevating customer and employee experience with data driven innovation and building out cross-functional businesses. Joy will be a huge asset to the team as we continue our journey towards becoming a data-first company.

In summary, I am incredibly proud of the results we achieved this quarter. Our strong execution and our exceptional team we have in place. Looking ahead, Procore is well positioned to deliver on another year of growth

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and exciting opportunities. We believe the investments we're making this year will position us to drive durable long term growth and enable us to return to steady margin expansion and cash flow in the future.

With that, let me turn it over to Paul to walk you through the financial results.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Thanks Tooey, and thank you to everyone for joining us today. As Tooey mentioned, we delivered excellent Q1 results that exceeded our expectations. I'll quickly recap our financial results, share some color on the quarter's highlights and conclude with our outlook.

Revenue in the quarter was $160 million, up 40% year-over-year and up 34% organically when excluding Levelset $7 million contribution. On an organic basis, we ended the quarter with 12,809 customers representing 20% growth year-over-year. Our non-GAAP operating loss was $20 million, representing a consolidated operating margin of negative 12%.

Taking a step back, there are a few things I'd like to highlight regarding our Q1 results. First, as Tooey alluded, it's difficult to attribute the quarter success to any one particular area that outperformed. We saw strength across multiple areas of the business. Multiple stakeholders, geographies and customer sizes performed very well. We believe this reflects the industry's accelerating recovery, our platform's leadership and brand, as well as our strong execution.

Second, we've continued to sustain healthy overall customer growth with 616 net new customer adds organically in the quarter. What gives us additional optimism is that this quarter we've started to see small business perform well despite the ongoing macro dynamics. This customer demographic has historically been disproportionately impacted by supply chain delays and inflation. So seeing this performance in Q1 is very promising.

Third, we saw record pipeline generation creating momentum for the year ahead. The improvement in our pipeline reinforces the commentary Tooey shared earlier. Our customers are experiencing higher end demand and they continue to choose Procore because of the value our platform delivers.

Lastly, our operating margin came in better than expected this quarter, primarily due to our revenue beat and the timing of expenses within the quarter. But more broadly, it is reflective of our ability to deliver more on the top line with greater margin efficiency compared to what was originally factored into our guidance.

With that, here is our guidance for Q2 and full year 2022. For the second quarter of 2022, we expect revenue between $161 million and $163 million, representing year-over-year growth between 31% and 33%. Q2 non-GAAP operating margin is expected to be between negative 14% and negative 15%. For the full fiscal year 2022, we expect revenue between $676 million and $680 million, including a contribution of $28 million from Levelset representing total year-over-year growth between 31% and 32%. Non-GAAP operating margin for the year is expected to be between negative 13.5% and negative 14.5%. This represents 150 basis points of improvement as compared to our previously issued guidance.

To put our guidance into context, there are two additional points I want to mention. First, I want to refer back to the initial guidance we gave last quarter on Levelset's contribution to operating margin for the year. As our teams come together and the acquisition becomes more integrated, the delineation of inorganic contribution to margins becomes more blurry. As such, beginning this quarter, we are no longer breaking out Levelset's contribution to our operating margin. And second, although we do not guide free cash flow, last quarter we did provide color on

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free cash flow margin for the year. Specifically, our updated operating margin guide implies a year-over-year decline of approximately 8 percentage points. And we would reiterate that this trend line can be applied to free cash flow margin for the year. However, it is important to note that due to the timing of collections and various outflows, the distribution of free cash flow by quarter is not linear.

In summary, we are thrilled with the results this quarter. I'd like to close by thanking our customers, the construction industry, our partners, employees, shareholders, as well as the communities we serve for continuing to support us as we work toward our vision to improve the lives of everyone in construction.

Now let's turn it over to the operator to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We would now begin the QA session. [Operator Instructions] The first question is from the line of Dylan Baker with William Blair. You may proceed.

Dylan Becker
Analyst, William Blair & Co. LLC

Q

Hey, guys, thanks for taking the question and congrats on a great quarter here. Maybe first again, I think you kind of touched on it around the data opportunity here. You've got the users, right, you've got the bidding, the pre-construction insights, and that obviously give you some confidence in the pipeline for the remainder of the year, but how are you thinking about the leveragability here, providing visibility to add and to manage some of the input cost, some of the challenges that those end customers are seeing, the potential marketplace dynamic, maybe it ties into, I think as well that future payments opportunity or cash flow management dynamic, but how are you thinking about leveraging that data asset obviously an important hire here, but as you scale those users and service that industry system of record over time?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yeah. I appreciate the question, Dylan. I think when we think about the data that the Procore platform generates there's a tremendous amount of opportunities to help make our customers more efficient across a broader spectrum, everything from cost to safety to schedule. One of the things that we're just really proud of is in the process of digitizing a number of these businesses, we are able to show them back information about their own projects, about benchmarks more broadly, as well as visibility into many things that do cost them money or slow down their projects. And so for us, this is going to be a long journey, but we absolutely believe that the data we have is only going to help make these contractors more efficient across a broad spectrum, including the challenges across supply chain and input costs.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

I will say, Dylan that one of the ways to look at this is for years we've been helping our customers manage risk with the data, and that's been great because that helps to prevent them from going out of business, but I think the greatest compliment we've been receiving over the last few years is that the insights that we reflect with that data back to our customers enabled them now to run better businesses, and do more work, and actually expand their businesses. So we've gone from playing defense to playing offense, and that's really – data has really played a huge part of that.

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Dylan Becker
Analyst, William Blair & Co. LLC

Q

Appreciate it. That's great. And obviously the demand is very apparent in the, kind of, core adoption trends you guys are seeing. I guess maybe, honing in on kind of the opportunity across stakeholders as well, right. So you've got that a unique perspective around the opportunity to monetize maybe that same dollar in construction volume across those, kind of, three core stakeholders as well, right. So, as you think about, kind of, the opportunity there, driving value across each of those stakeholders and nuances, how are you may be thinking about monetizing the same kind of construction dollar, thinking about maybe the overall opportunity and penetration being lower than maybe the construction volume might imply as well as leveraging that collaborator model to right from a cross sell effort perspective as well?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Well I appreciate the question Dylan. So there's a lot in there, but essentially so essentially, if you think about what our mission is, is to connect everyone in construction on a global platform. So we're not going to be successful until we are able to take all those stakeholders and effectively connect them. But if you're looking for one example for instance of how we can create opportunity for Procore in that environment, you could look at where we're moving with being in the flow of funds for the way construction gets funded.

So for instance we were able to provide the ability for owners, and GCs, and subs to be able to manage their lien waiver process in the future, which is what we've already been talking about. But then, beyond that, in the next phase, of being able to be in the flow of funds for moving cash, and moving payments through the system, opens up a tremendous number of opportunities for us to look out for these other fintech businesses. So there's not just one aspect of what it means to connect people.

Dylan Becker
Analyst, William Blair & Co. LLC

Q

That's great. Thanks, guys. And again, congrats on an excellent quarter.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thanks, Dylan.

Operator: Thank you. The next question is from the line of Saket Kalia with Barclays. You may proceed.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Okay. Great. Hey, guys. Thanks for taking my questions here. Tooey, maybe just to start with you just, obviously, a lot of the questions that that we get are around macro and it feels like your commentary here is palpably more positive. So just want to stress test it a little bit. Can you just talk about the impact that inflation is having on your customer base and sort of what gives you that confidence because I know you spend time with customers every day. What gives you that confidence that the building backlog that you're seeing is ultimately going to get built on schedule and then have that sort of follow-on benefit the Procore?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

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Yeah. I appreciate the question Saket. It's I get asked this question all the time. So yes first, I want to start by saying I do talk to customers every day and the customers do tell me that their backlogs have never been bigger or stronger, which is a massive indicator. Now, we have other indicators. Our ability to increase pipeline, like I mentioned in the earlier remarks, is actually, gives us a lot of faith that the business is going to do well over the year. And so we also see a lot of just overall optimism when we talk to the industry.

There's also external sources. There's, the Architecture Building Index, there's the Dodge Momentum Index. But one of the one of the things I look at, which I think is really interesting in terms of external data, is employment and construction is back to pre-COVID numbers. The folks in the construction industry would not be hiring these people if they didn't have so much confidence in their backlogs. So that, to me, is one of those unassailable facts that you just have to take into account. The other one, the other way to look at this is that we've been talking a lot about this lately, but there is a supply and demand disparity in construction. There is so much demand for construction, which is evident by these backlogs, but our customers have the lack of folks on staff to build them.

So there's a supply challenge and there is a very large discrepancy between the demand for construction and what is able to be supplied by the industry. And so what we – the way we look at it is any sort of impact to the overall demand, so any one of those macro sources that you're talking about, would have to be very large in order to have to have such an impact on the macro demand to lower to a level where we believe it would actually have an impact on Procore.

And also the other thing is the all of the catalysts that we've seen are actually helping to accelerate the digital transformation because all the companies that we're selling to, like Lee Lewis, for instance, I mentioned before, they aren't looking for cheap software. They're looking for software to help drive efficiencies in their business so they can run better businesses. So ultimately, we think that we're well positioned.

Saket Kalia Q
Analyst, Barclays Capital, Inc.

Got it. That makes a ton of sense. Paul, maybe just on, on the back of that again, just great. Great to hear of the backdrop in construction. But can you, can you just maybe talk anecdotally of where we stand on the net revenue retention sort of relative to pre-pandemic levels?

Paul Lyandres A
Chief Financial Officer, Procore Technologies, Inc.

Yeah, look, I think one of the things that also continues to give us optimism on the business is just how we are watching these metrics across the board from retention, growth, and [indiscernible] (00:27:33). We continue to see really positive trends in those dynamics and it's a function of customers buying more products, customers buying and expanding in their volume, but it is an area that is a bright spot for our business.

Saket Kalia Q
Analyst, Barclays Capital, Inc.

Awesome. I'll get back in queue. Thanks, guys.

Paul Lyandres A
Chief Financial Officer, Procore Technologies, Inc.

Thank you.

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Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thank you, Saket.

Operator: Thank you. The next question is from the line of Adam Borg with Stifel. You may proceed.

Adam Charles Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey, guys, and thanks so much for taking the question. Maybe for Tooey, so, it's great to hear about the recovering end markets that you've been talking about, even the SMB part. But let me even just ask a broader question. So it's been about six months since the Infrastructure Bill was passed, and you talk already about this growing backlog. I was curious to hear what kind of impact that that's having yet, if anything, on the AGC – the industry, and remind us of how that could trickle out impacting you guys in the future.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yeah. So great question Adam, we have not seen a direct impact yet. In fact, we work very closely with the AGC, and they even their head economists said that this is something for later in the year as these projects start coming online, it takes a long time to get these shovel ready. But ultimately, we believe it will have a positive impact on the industry. And we always come back Adam to the analogy that Paul likes to talk about, which is the oil tanker, which is this industry is very large, is so large that it takes a long time for change to impact it. But when it does, and these – the stimulus bills – those infrastructure bills are large, we believe it will actually have a positive impact on the overall construction industry, thus on Procore.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Yeah. The only thing I'd add to that, Adam, is one of the things that gives us that conviction and excitement is that when we think about who will ultimately be building these projects, it is these municipalities, it is the GCs that are our customers. So this is less about whether we will see it and more about the timing of when that funding is actually going to come through.

Adam Charles Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah, incredibly clear. That's a great answer. And then maybe just as a quick follow up or a separate question, just on Levelset. So obviously, there's a lot of focus on lien rights management, excited for that product to see the integration that you're referring to earlier to, but if I think beyond just lien rights, sort of they did have some really interesting newer area that they were focusing on around the material financing and legal support. So I know obviously this is still not the primary focus today, but which of these newer areas that they were focusing on really gets you excited? Thanks again.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yes. So back to the original investment thesis, yes lien rights management is critical to solving these complex workflows, but one of the other areas that we really valued Levelset for was their innovation and their thinking around things like material finance in particular. And so that's an area where we are exploring I think is the best

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way to put it. It's way too early to talk more about it, but it's an area that we – has piqued our interest and as something material happens there, we will definitely let you know.

Adam Charles Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Excellent. Thanks again, guys.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Sure. Thanks, Adam.

Operator: Thank you. The next question is from the line of Kash Rangan with Goldman Sachs. You may proceed.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you very much. Congratulations on the quarter. Tooey, I'm curious to get your take on the construction industry, the value proposition of Procore vis-à-vis rising rates and what could be higher cost of capital? And also, secondly, with respect to the fintech solutions, you've launched them. I think you've talked about it in the last quarterly earnings conference call what is the feedback you're hearing from customers with respect to the propensity uptake and how does it make you feel about the revenue uptake you might get from this category of solutions next year? Thank you so much once again.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yeah, sure Kash. By the way, great to hear from you. So the – I'll answer the first one, I'll pass the second one off to Paul. The question is with the impact of interest rates on our customers, it actually brings up a really interesting point. Not every project in construction is financed through a loan. So it's interesting if you think about it, but every city, state, municipal, federal government job is, is funded through bonds, every corporate, campus expansion, most of them are actually financed through balance sheet financing. So not all of construction is interest rate sensitive and the other thing is just because the industry is so large and again, back to my supply and demand discrepancy and there's so much demand for what needs to get built, we think that interest rates would have to go wildly out of control in order for us to even begin to see some sort of an impact on Procore. It's just such a big industry and it's so diversified across all these different areas. It just leaves us a lot of room currently for growth.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

And then maybe touching on the second question, as we think about the conversations we've had around fintech, both with the investor and the analyst community as well as the broader industry, I'd bring you back to what we've talked about around the time of the Levelset acquisition, that as we've been in this industry now for 20 years, that the appreciation of the problem set that this, this customer base faces is quite wide. But we have come to particularly appreciate the challenges around managing working capital and risk, and that is where we continue to innovate and explore because what we know with confidence is that the problem statement, the need from the industry is there. We've been talking to these customers for decades about it. It is more about the best way to solve it and where and how Procore helps to drive that value to the industry, and that's where we're continuing to learn, continue to experiment, and we will share more as we get more conviction on a particular approach.

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Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Super insightful. Thank you so much.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thanks, Kash.

Operator: Thank you. The next question is from the line of Brent Thill with Jefferies. You may proceed.

Brent Thill
Analyst, Jefferies LLC

Q

Thanks. Tooey, just to follow up on Kash's question. When you think about just critical infrastructure that isn't interest rate sensitive, can you just talk through, are you seen as percent of your business rise versus kind of the other nice to have areas or areas that could be deflected can you talk to how that makes this building? And then a quick follow-up for Paul.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

So the best way for me to quantify that is just to talk about what our customers tell me, which is they – our customers run diversified books of business, they'll do a lot of – well, they'll do infrastructure. They'll also do virtual or they'll do warehousing or data centers. So I would say that the overall excitement is it's kind of – it's muted, but it's there. They believe it's going to have an impact over time. But again, these things take a long time to come to fruition. So I wouldn't say they're betting the farm on it by any means, but we believe ultimately because of the scale and because of our diversified portfolio, that we will benefit kind of across the board.

Brent Thill
Analyst, Jefferies LLC

Q

And Paul, I believe you have over 13 products, but 37% of your ARR is generated from four or more indicating you have a lot of cross-sell? Where are you starting to see that big cross-sell and adoption of areas maybe haven't seen? Can you can you drill into a couple of those areas?

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Yeah. Look, I think you've heard us talk a lot about the financial suite over time, and that continues. There's a reason we continue to talk to it as an area we've invested quite a bit for many years. It's a highly differentiated product and something that we're continuing to see more and more demand from the end industry. The other side I would talk about that you've heard me say a lot is that when we then think about the value of the cross-sell and how we get customers to want to adopt more products. It is less about calling out a specific product, and more about how we continue to weave together these different workflows across products and drive that value. So you've heard us talk a lot about how estimating and takeoff are going to come to project management, labor management ties to financials. These are all things that we continue to invest in and are driving cross-sell for those stakeholders that really benefit from those connected elements. And we continue to have a lot of conviction that as we invest more and more in the platform we're only going to see that momentum continue.

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Operator: Thank you Mr. Thill. The next question is from the line of Matthew Broome with Mizuho Securities. You may proceed.

Matthew Broome
Analyst, Mizuho Securities USA LLC

Q

Hi. Thanks for taking my questions and congratulations on a strong quarter. How are you thinking about increasing the number of quota carrying reps this year and I guess how are you finding the recruiting environment?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yeah. We continue to see that our ability to find top talent and fill our roles is something that while challenging in this environment as we appreciated that it was going to be challenging. We've invested in the resources and the focus. And so we feel really good about the hiring cadence our ability to fill quota at this point. We think we have everything we need in order to deliver what we've told the Street we would based on a quota capacity framework.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

And Matthew I'd be remiss not to say that, a big shout out to our talent acquisition team for all the hard work that they do to bring in the top talent that we have, we could not do it without all of their efforts.

Matthew Broome
Analyst, Mizuho Securities USA LLC

Q

All right. Perfect. And then obviously nice to see that that very strong customer growth in the quarter. Has the profile of new customers changed the tool over the last year or so, just in terms of the size or type of customer or really anything else about calling out?

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

No. As I mentioned earlier, we saw strength across all of our segments. And so the one area we'll call out is that the SMB, though, it's still probably the most impacted by economic headwinds, seems to be coming in kind of anecdotally back, and doing a little bit better, which is something that we're really, really happy to see.

Matthew Broome
Analyst, Mizuho Securities USA LLC

Q

All right, perfect. Thanks very much.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Sure.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thank you.

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Operator: Thank you. The next question is from the line of Jason Celino from KeyBanc. You may proceed.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for fitting me in here, nice to see the record pipeline generation comment. Top of mind all seems really healthy, maybe taking it a step further. Are you also seeing any improvements in some of the execution related things like sales cycles, close rates or when rates?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Candidly, nothing material enough to talk about. We just continue to see that the demand side, the top of funnel, is getting better and better. And that's probably the only thing worth calling out at this point.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, perfect. And then on the margin flow through from the top line performance, also nice to see maybe more broadly, can you just remind us of the current philosophy around margin improvement?

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Yeah. Look, I think when we think about margin, when we think about the way we want to invest, we are constantly being thoughtful to how we look at the longer term ROI, the lifetime value associated with these investments, and what we believe is best for the long term shareholder. So as we think about margin improvement, we believe that we will continue to demonstrate operating leverage year-over-year, but that when we think about how we want to deploy capital, we're really thoughtful to the appreciation that we're in the early days of, of a really big market and that we want to find the right balance, knowing that we think there is just a tremendous opportunity still ahead.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Great, great, great work, guys. Thanks.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thank you.

Operator: Thank you. The final question is from the line of Mauro Molina with Piper Sandler. You may proceed.

Mauro Molina
Analyst, Piper Sandler & Co.

Q

Hi, great. Yeah, just filling in for Brent here. Thanks for taking our questions. So I was just curious if you saw any significant effect on customer demand from the Omicron variant as it sort of ramped up in January, it persisted through February. What did you find that construction activity overall was more insulated from that wave during those months. And then I'll have one follow up.

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Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

So yeah, Mauro, we, we have not we there is no correlation. We haven't seen anything that would indicate that at all. So I, I don't really have much more to add.

Mauro Molina
Analyst, Piper Sandler & Co.

Q

Got it, got it. And then you had some commentary around broad based success resonating with stakeholders, different geographies and customer sizes. Is that the same thing you're seeing as it relates to Levelset? Or is there a certain segment of the market where Levelset is kind of resonating more?

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Levelset is in general more focused or historically has been more focused on the subcontractor and the vendor. And so what I would tell you is that the stakeholders that they service, they're continuing to see success. And we continue to be really bullish on the opportunity of what we can do by bringing the businesses together, serving newer stakeholders, as well as continuing to get deeper into their existing stakeholders.

Mauro Molina
Analyst, Piper Sandler & Co.

Q

Very helpful. Thank you.

Craig F. Courtemanche
Founder, President, Chief Executive Officer & Chairperson, Procore Technologies, Inc.

A

Thank you.

Operator: Thank you. There are no additional questions at this time. I would now pass it back to the management team for any closing remarks.

Matthew Puljiz
Vice President - Financial Planning & Analysis & Investor Relations, Procore Technologies, Inc.

Thanks, everyone. Take care.

Operator: That concludes today's conference call. Thank you. You may now disconnect your lines.

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