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Procore Technologies, Inc. (PCOR)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending the Procore Technologies Fiscal Year 2022 Q3 Earnings 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 your host, Matthew Puljiz with Procore Technologies. Thank you. You may proceed.

Matthew Puljiz

Vice President-FP&A and Investor Relations, Procore Technologies, Inc.

Thanks. Good afternoon, and welcome to Procore's 2022 third 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, 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 today, November 2, 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 acquisition of Levelset. However, with respect to our customer count metrics, we define organic to mean customers under Procore contract. And with that, let me turn the call to Tooey.

Craig F. Courtemanche

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

Thanks, Matt. And thank you all for joining us today. As you all probably saw from our earnings release, we had an excellent quarter. Paul is going to elaborate on this further in just a few moments. But I'd like to characterize the quarter as feeling like a good Q4 in terms of big deal momentum. I am so proud of the team for the performance they delivered and I'm especially grateful to all of our customers who continue to partner with us and place their trust in us. Our customers are responsible for building the world around us every single day, from our schools to our homes, hospitals, airports, and much, much more as well as the infrastructure that powers and brings them all to life. We are honored to partner with them in their very important work.

Today, we're going to keep our prepared remarks brief since we'll see many of you next week in New Orleans where we will be hosting our first ever Investor Day. It's going to be held alongside our annual user conference,

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Groundbreak. Groundbreak is the industry-leading technology conference where construction leaders from around the world come together to drive the industry forward. We are expecting over 3,000 industry leaders who come from dozens of countries for a jam-packed couple of days filled with incredible content from keynote speakers like Drew Brees, Robin Roberts and Fred Mills, as well as over 70 breakout sessions. We're also offering countless networking opportunities, an innovation lab where attendees can work with our engineers directly on our future products, and a product pavilion where they can explore hundreds of our marketplace partners. We could not be more thrilled to bring everyone together in person for the first time since 2019.

I'm also looking forward to meeting in person with our analysts and shareholders at our inaugural Investor Day on the 9th. The team has been working incredibly hard on Groundbreak, and we hope that you will benefit from the insights we plan to provide. So, with that, let's jump into some business updates.

We're going to begin with briefly updating you on the demand environment, which I know remains top of mind for many of you. I continue to stay close with our customers on this topic. And from our vantage point, customer sentiment towards the environment remains consistent and positive. Internally, we have yet to see a change in buying behavior or customer demand. Our customers continue to watch the environment closely. And in some cases, they're taking a variety of steps to counter short-term volatility, such as focusing more heavily on planning or pre-purchasing materials to secure pricing. But our customers remain optimistic overall about the long-term outlook.

Most of our customers have strong backlogs. And sectors like nonresidential and energy continue to perform well. And many of our customers anticipate project inflows from various infrastructure bills globally. All of this, combined with our continued healthy pipeline and performance, leads me to feel positive about our business. Of course, we've all seen that the news and some economic reports appear mixed and some pockets of construction are already or may eventually feel pressure should economic conditions deteriorate.

As we've shared before and we will discuss next week, not all sectors of the industry behave the same during boom and bust times. When demand in one sector wanes, we often see demand grow in another. We have very diversified portfolio of customers. These customers often run diversified portfolios themselves. So we do not anticipate excessive exposure to one particular segment.

Speaking of customers that run diversified portfolios, this quarter, I am pleased to share that Brasfield & Gorrie, one of the largest privately held general contractors in the US, expanded significantly with us. Brasfield & Gorrie manages a highly diverse mix of projects that span across many different sectors, including aerospace and aviation, commercial, energy, healthcare and multifamily residential just to name a few.

After a competitive evaluation, Brasfield & Gorrie selected Procore to scale across the enterprise because of our superior end-to-end platform and our shared people-first culture. As they continue to grow, Procore will help them streamline their processes, drive efficiencies, and enable them to leverage data, which will drive better business outcomes.

In addition to general contractors, we continue to expand relationships with notable owners, including a Fortune 100 retailer. This customer originally bought Procore to manage all of their projects, including new builds, store remodels, merchant transitions and special projects. Since then, our relationship has remained strong with the customer deciding to expand with us after their initial multi-year term. This customer has built over a dozen complex integrations with Procore, allowing them to flow data to and from their various critical systems, indicating a strong commitment to our platform and its relevance across their business. They continue to invest heavily in

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their capital assets and they expect to build even more in 2023 and beyond. We are delighted to continue partnering with them on this journey.

Not only are we continuing to expand relationships with customers, we're building new ones. The city of New Orleans is a new public owner customer with a population of almost 400,000. City of New Orleans manage critical infrastructure projects, including a $2.3 billion program to restore damaged infrastructure in the aftermath of Hurricane Katrina. In order to better collaborate with other public sector partners, they chose to consolidate their existing system and standardize across Procore. By adopting Procore, they benefit from more efficient processes, better controls, and improved visibility into their infrastructure program. We are thrilled to have developed this relationship with that very city where we're hosting Groundbreak at our Investor Day next week.

Not only are we supporting the industry's efforts to transform the way it operates, we are reflecting upon our own operations. As I've shared in the past few quarters, I have been focusing a lot of my energy on hiring the right leaders to set Procore up for success in the immediate and long term so that we can scale our operations for future growth.

The specific area of focus has been our executive team and what our company, our employees, and our customers need during this next chapter for Procore. In the last several months, we welcome to our executive team Joy Durling our Chief Data Officer; Steve Davis our President of Product and Technology. And today, I am very excited to announce that Olga Kibler will be joining Procore as our Chief People Officer. Olga joins us with over 20 years of human resource leadership experience at several market leading software companies including Five9 and DocuSign.

In addition, our Chief Revenue Officer, Dennis Lyandres, will transition into a new role as Special Advisor to the CEO where he'll focus on certain areas of strategic importance to Procore's future success, including international expansion and scale. Procore's go-to-market team is very strong and has been executing very well this year as you can see from our Q3 results. We believe we have the right strategy and the right team in place. And this is an ideal time for Dennis to shift his focus to advise me in specific areas of the business where he can add the most value. Dennis has been instrumental to the company over the last several years. He has directly contributed to leading Procore from $10 million in revenue to hundreds of millions today. He was critical to our evolution from serving general contractors to owners and specialty contractors as well as our international expansion. In this new role, I expect Dennis to continue to provide an outsized impact to me and to the company. While we begin searching for a new revenue leader for this next phase of growth, the talented leaders from our sales, marketing and customer success organization will report in to me.

So before I hand it over to Paul, I'd like to conclude by reiterating what an incredible position Procore is in today. We have tremendous trust and deep relationships with the construction industry and we continue to hear from our customers and industry experts that our platform and solutions are the best in the industry and that we are helping our customers manage risk and run better businesses.

Procore is performing very well as you can see from today's results. Our executive team is expanding with excellent leaders to help us scale to the next stage of our growth. So I want to conclude today's remarks by letting you know how incredibly proud I am of everything we've accomplished, and I am so excited to see what the future holds. I can't wait to share more with you all next week.

And as a reminder, this will be Procore's first in-person Groundbreak since 2019 and our very first ever Investor Day. It's going to be amazing, and I look forward to seeing many of you there.

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Now, I'll hand it over to Paul.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Thanks, Tooey, and thank you to everyone for joining us today. As Tooey described, we had a very strong performance in Q3. I'm very proud of our results and I'd like to share some highlights. Revenue in Q3 was $186 million, up 41% year-over-year and up 35% organically when excluding Levelset at $8.5 million contribution. Total RPO in Q3 was $715 million, with short-term RPO representing approximately 70% of that and growing 40% year-over-year with 2 points of contribution from Levelset and non-GAAP operating margin was negative 7% in Q3.

As it relates to our recently announced material financing program, you can find information on the activities of that program included in the investing activities section of our cash flow statement. We would remind folks that we are still in the early stages of that opportunity and are not expecting material revenue contribution from that initiative this year. As such, we do not anticipate providing regular quarterly updates on the program.

When reviewing our performance in Q3, here are some items that stood out to me. First, as Tooey mentioned, the big deal momentum in the quarter was notable. Specifically, there was approximately several million dollars in ARR the team closed in Q3 that was originally anticipated to close in Q4. The combination of the large deal activity and these closed Q3 deals that were originally anticipated in Q4 directly contributed to short-term RPO accelerating from 34% last quarter to 38% this quarter on an organic basis. I'll provide further context on this when we discuss our updated outlook.

Second, our performance this quarter was quite well-rounded in the US, and that we saw strength and impressive growth across all stakeholders and customer size. Specifically, within these dimensions of our business, we saw strong customer expansion activity from both additional construction volumes as well as new product additions. We believe this reflects our deepening relationship and footprint within the industry as well as the significant remaining opportunity for growth.

While performance was strong across the board from a stakeholder and customer size perspective, we did have disparities in performance by geography. International comprises a small portion of the total business today, yet we acknowledge the strengthening of the US dollar has created foreign exchange volatility globally. And as a result, our Q3 international results were impacted by currency headwinds. Specifically on a year-over-year basis, FX contributed approximately 7 points of headwind to international revenue growth in Q3.

Therefore, on a constant currency basis, international revenue grew 40% year-over-year. Additionally, our international business continue to experience inconsistent productivity and we expect these internal dynamics to persist in the near term. We do not believe the international performance is primarily driven by external factors related to the broader demand environment. Rather, these are internal growing pains related to how we better scale the operations and enablement across all the countries we operate with it.

Given this is the second quarter of lower than expected productivity, we are evaluating the international operations and structure and expect this dynamic to reverse sometime next year. Fortunately, the US business has been performing very well. Its performance is more than made up for international and is a testament to just how much more opportunity the company still has domestically.

Finally, hopefully shareholders appreciate our improving expense management in this quarter as compared to the second quarter. We continue to identify ways to efficiently invest in our growth while ensuring we are well-

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positioned to execute on our long-term opportunities. This approach should lead to continued margin improvement over the coming years, but at an appropriate pace considering our global opportunity.

With that, let me move on to our outlook. Before providing specifics, I'd like to share some additional color on our guidance philosophy. We acknowledged the broader environment remains highly dynamic and ever changing. Consistent with the approach we have taken in the prior two quarters, the conservative guidance we are providing today factors in this external uncertainty and potential for weakness. That said, I would reiterate Tooey's remarks pertaining to the fact that we have not yet experienced this volatility in our business today.

With that background, here is our guidance for Q4 and full year 2022. For the fourth quarter of 2022, we expect revenue between $189 million and $191 million representing year-over-year growth between 29% and 31%. Q4 non-GAAP operating margin is expected to be between negative 10% and negative 11%. For the full fiscal 2022, we expect revenue between $707 million and $709 million including a contribution of $30 million from Levelset representing total year-over-year growth between 37% and 38%. Non-GAAP operating margin for the year is expected to be between negative 11% and negative 12%, an improvement of 200 basis points from our previously issued guidance last quarter.

Please note that Q4 will represent Levelset's fifth quarter as part of Procore and will be considered organic within the total reported results we disclose within our Q4 financials. Therefore, our total reported growth rates when we report Q4 should naturally be closer to our current organic growth rate. And finally, while we were expecting to have a strong Q4, shareholders should note that Q4 may be affected by both the large deals that were closed early in Q3 as well as the fact that 2021's Q4 was excellent and serves as a challenging compare period. This means that in Q4 you should expect year-over-year growth in short-term RPO to normalize closer to what it has looked like in H1 of 2022.

Before I wrap up building on Tooey's commentary, I'd also like to reiterate your invitation to join us at our Investor Day taking place in conjunction with Groundbreak next week on the 9th in New Orleans. Please reach out to our Investor Relations team if you would like to attend.

I'd like to close out by again thanking our customers, partners, employees, shareholders and the industry as well as the communities we serve for giving us this opportunity. With that, let's turn it over to the operator to begin the Q&A session.

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the Q&A session. [Operator Instructions] The first question is from the line of Sterling Auty with Moffettnathanson. You may proceed.

Sterling Auty
Analyst, MoffettNathanson LLC

Q

Yeah. Thanks. Hi, guys. So, Tooey, you did a great job, I think, describing the macro environment. But I'm wondering if you could just maybe compare and contrast the environment that we're in now versus what you experienced in March of 2020 and how maybe you might be managing the company differently.

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

A

Well, Sterling, great to hear your voice, by the way. And so, let me start by saying in March 2020, it was a different world, right? So I actually think that we did everything right that year. We raced towards profitability and we decided that we were going to do everything we could to serve the industry. So we put our focus in those areas, particularly just to make sure that the industry was okay and our employees were okay.

But when I talked to customers back then like they were very concerned, just like everybody else was on this planet is what was going to happen. Now, when I talk to our customers, they do have a little bit of concern around the short term, and they're doing things like they're focusing some of their energy more on pre-construction. So they can be ready for making sure that projects end well. They're also pre-purchasing materials. So they're doing a few things to make sure that they're setting themselves up for success. But really, across the board, the sentiment is, is that they're very optimistic about the mid-term and the long term, and their backlogs remain very [ph] full (19:50). So they have more work than they know what to do with.

And so, they are – they're out there trying to get as many projects going as they can. One of their biggest problems is that they have a challenge finding labor as you well know. So they're not really worried about the next job. They're actually worried about finding the person to build the job that they haven't signed up for.

Sterling Auty
Analyst, MoffettNathanson LLC

Q

That makes sense. So one quick follow-up, Paul, for you. Can you give us a sense when you look at the end customer, meaning the GC versus the subcontractors versus owner operators, is there any change in terms of the demand environment by customer type based on what's happening in macro?

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

[indiscernible] (20:33) short answer is no. We continue to see strong performance across all of our different stakeholders, and we remain really bullish on the opportunity we have with each of them.

Sterling Auty
Analyst, MoffettNathanson LLC

Q

Excellent. Thank you.

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

A

Thanks, Sterling.

Operator: Thank you. The next question is from the line of DJ Hynes with Canaccord. You may proceed.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Hey, guys. Nice results there. Congrats. I have two questions. I'll just add something concurrently, I think they're pretty straightforward. First, can you just remind us of your relative exposure to residential, commercial and infrastructure spend? And then the second, it sounds like you're rethinking kind of the international strategy after a couple of quarters of inconsistency. What in your view needs to happen there?

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

A

Yeah. Well, let me start, DJ, by – I'll talk about the exposure to any particular sector. This is interesting. And we're going to talk about this more next week at the Investor Conference. But the industry is way bigger than most people think. And a lot of people start with residential, which is just that it's not – it's just one of many sectors. And people forget that construction includes like ports and bridges and highways and as well as all of the other ports and bridges and highways and – as well as all of the other residential, industrial, commercial warehousing. So, we are – all of our customers which by the way remember owners, [ph] GCs (21:50) and subs, all run diversified portfolios themselves. So we're going to talk more about that next week and give a couple of examples. So we find ourselves not exposed to any one particular sector because of the diversification in our portfolio.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

And maybe the only thing I'd add to that is remember that when we talk about residential, the area we don't really participate in is the really small [ph] TI like work (22:12). The area we are much more involved in is things like mixed use multifamily, the areas that we do expect there to be – you need for growth. I'll maybe touch on the international one and then I'll [indiscernible] (22:26).

So the international price, I think it's clear to take. It's important to note that we are impacted by the FX side as we talk about. The business if you look at it from a constant currency standpoint, still performed well, it grew 40% year-over-year. But the reality for us is that we believe we should be doing better and we can be doing better. And so as we think about the opportunity ahead of us, we're really going to be focused on how we execute and how we think about structuring that business, knowing that what hasn't changed for us is our belief in the long-term opportunity and our belief that Procore has a huge growth potential ahead of us when it comes to international.

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

A

And let me be super clear. We believe that this is all internal dynamics. This is not about external demand or the external need for our products. We have great product market fit and the international opportunities remains massive. So this is all us tuning and rethinking how we do things on the international side. But it's all internal, it's not external.

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David Hynes
Analyst, Canaccord Genuity LLC

Q

Yeah. Okay. Very clear. Look forward to seeing you guys in New Orleans next week.

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

A

Thank you.

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

Michael Richards
Analyst, Stifel Financial Corp.

Q

Hey, everyone. This is Mike Richards on for Adam Borg at Stifel. Thanks for taking the questions. Maybe for Tooey on the materials financing program. I would just love more of an update on how it's going, what the customer's activity [indiscernible] (23:54) and what the roadmap looks like in the coming quarters. Thanks.

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

A

Yeah. S,o Mike, yes, absolutely. Love to talk to you. As you know in our last earnings call, we did announce that we were starting this business inside of Procore. We're going to talk a lot about this more next week. But I will say that this is a business that we're growing from the ground up. It's a very small portion of what we're doing right now and we're really in that learning phase of the business. So want to make sure everybody doesn't over index on it now while we're growing this business kind of from scratch. But the early results are our customers seem to see the value in what we're offering. But again we are still learning as we go. I know Paul your close to it. Do you want to...

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Yeah. Just bring you back to the prepared remarks. This is something that we're early days in learning and investing, it is certainly something as we shared in the last earnings call that we believe has a lot of potential and a lot of synergies with what we're doing. But we will remind you all that this isn't something we plan to talk about on a quarter-over-quarter basis because it is still something that is just so early days.

Michael Richards
Analyst, Stifel Financial Corp.

Q

It's so clear. Thanks for answering the question.

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

A

Thanks, Mike.

Operator: Thank you. The next question is from the line of Dylan Becker with William Blair. You may proceed.

Dylan Becker
Analyst, William Blair & Co. LLC

Q

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Hey, guys. Nice job on the quarter here. Maybe I wanted to dig into some of the puts and takes that you talked about with the customers' kind of accelerating their investments and landing larger. Is that going to be somewhat counter to what we've heard from other software businesses here? I guess how are you guys thinking about this as further validation of confidence in the platform, investments you've been making, given the early stage opportunity, as well as again some of the quantifiable ROI benefits here as they think about strategic prioritization of software investment.

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

Yeah. So – by the way, as I mentioned earlier, and I think as you're picking up on, I stay very, very close to the industry and we have seen that there is just a broad secular demand for construction globally. And by the way, we always mention this, even in the economic downturns, they – there's a lot of stimulus that comes into the market. Right now, we have the $1.2 trillion infrastructure bill in the US amongst there's a [indiscernible] (26:13). So where one sector kind of wanes, the other one [ph] extends (26:18). So what we're seeing is that the pie is growing and it's growing across all facets of construction.

The other the other thing that is driving our success is the product market fit. We've been we've been heavily focused on this for years, and our platform provides a tremendous amount of value to our customers where they say they can run 48% more business per employee by running Procore. And frankly, I want to give a shout out to the organization for strong execution. It takes a lot and it takes a lot of coordination across a very large organization to deliver those kind of results. And so, I do want to give credit to the team.

Dylan Becker
Analyst, William Blair & Co. LLC
Q

Yes. Appreciate the color there. Maybe one other too, if you think about maybe global mandates and I don't know how much this maybe plays into the international component as well, but how this plays into customers digitization efforts and maybe how important is that [indiscernible] (27:11) to actual project management software selection? Do you think about customers that move from that initial design stage through to project execution?

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

Well, yeah – maybe this is a great opportunity for me to dispel the myth that Procore isn't a BIM product. We have – we manage BIM files and really, we do the things that the folks in the field that actually do the building really want, which is assignment [indiscernible] (27:36) protection, it's real-time visibility on an iPad of where you are on the job and what's going on. So – but let me then say that that is not – and that's not the driver internationally, what we're finding is that the international [indiscernible] (27:50) 9650 standard is one that comes up a lot, which is more around document control than BIM. And we are – we're building a solution along those lines to help solve that. So I guess the answer on the broad side is that that's not something that we're seeing as being a real driver in deals. And so – and if it was, we have the products that support it.

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

Yeah. The only thing I would add is international, similar to the US, is still trying to solve the most fundamental basic problems. They are still working on getting the right people to the right place with the right information. That is where Procore has always shine and it's something that gives us that conviction to know that we still have this massive opportunity ahead of us when it comes to [ph] international (28:32).

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Dylan Becker
Analyst, William Blair & Co. LLC

Q

Got it. Thanks, guys. Congrats again.

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

A

Thank you.

Operator: Thank you. The next question is from the line of Ken Wong with Oppenheimer. You may proceed.

Ken Wong
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you for taking my question. So Tooey, you mentioned on the macro side you guys haven't seen any of the pressures on the business, but you also called out that sometimes you've got pieces of construction that were kind of trend down and then other pockets that might start to surge up. Any I guess any indicators that some of those other pockets that typically are counter-cyclical have started to pick up. Have you started to notice that in the business?

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

A

Yeah. So one of the areas that we've noticed is, as I mentioned before, the $1.2 trillion infrastructure bill in the US. I talked to a lot of our customers who are gearing up to have their teams go after those projects because that's basically found opportunity, and that means that they will dial back areas where they may be seeing some challenges. So maybe in commercial. So again, they run these diversified portfolios. And the good news is, it really does seem as one sector wanes, another one just grows. And so, there – it always seems that the pie tends to be growing and our customers are just trying to make sure they have the right mix across a diversified portfolio.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Maybe what I'd add one other way that we think about showing this within our own business is in our expansion business. And that's something that we've seen continue to perform incredibly well. And so, as our customers may see one pocket wane, what they're coming back to us in saying is they are still finding more work in other areas than they can need and their businesses are still growing nicely and we see that in our own continued improvement in the extent.

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

A

I'd say one more [ph] swipe (30:21) at this one which is our customers, they think about the macro but remember they're running a two to three-year backlog of [ph] business (30:27). So finding that next job is really not what's worrying them the most, it's finding the skilled labor and the skilled resources to put on the jobs that they've committed and contracted to, that starts next week. That's where the real challenges are.

Ken Wong
Analyst, Oppenheimer & Co., Inc.

Q

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Got it. Got it. Super helpful. And then just quickly on the margin side, I recall last quarter you guys maybe you got caught off guard a little bit by T&E. And this quarter, you guys had made some pretty good improvements on the spend discipline. Should we think about the focus as we look further out being a little more balanced in terms of growth or again more of a kind of like catch up this quarter versus what we saw last quarter? Thank you.

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

Can I – I just want to start by saying the new mantra around Procore – or is not the new mantra, but it's a mantra that I can't go to a meeting and not have stated, which is efficient growth. Maybe years ago, it was all about growth. But at Procore, it is in the DNA now, efficient growth. And I think you're seeing the results of that.

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

Yeah. I just build on it that we're really proud of how the quarter came in. We believe that we talked about this a bit and for the previous quarters. But we've done a lot over the last two years to invest in this business. We believe we have hit this point where the business truly has hit a scale where we can continue to deliver great growth, invest in our long-term opportunities while showing scale and efficiency. You've seen us start to do that this quarter, and it's something you should expect from us going forward.

Ken Wong Q
Analyst, Oppenheimer & Co., Inc.

Great. Thanks a lot, guys.

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

Thank you.

Operator: Thank you. The next question is from the line of Brent Bracelin with Piper Sandler. You may proceed.

Brent A. Bracelin Q
Analyst, Piper Sandler & Co.

Good afternoon. I look forward to seeing the team in person next week. Two things stood out for me this quarter, I guess, that I wanted [indiscernible] (32:14) that into one. Just the strength of the backlog build in the quarter, and then obviously the positive free cash flow. Tooey, for you on the backlog build short-term RPO was very strong again this quarter. What's changing here as you think about the composition of new and expanding business, is it really just new areas? Are you seeing broader attach rate on the other product side? I'd love to drill down and get a little bit more color on, on what drove the surprising strength specifically around those two segments. And a quick follow-up on the [indiscernible] (32:50).

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

Yeah. Awesome. So, yeah, no, by the way, great to hear your voice. I really am looking forward to seeing you next week. It will be fun. So, I think the thing that's so gratifying is that we saw the strength across a lot of different vectors. So, it wasn't just one thing. But I would point out that we had some very large deal momentum – sorry, we had a lot of large deal momentum that really contributed to it. But we also saw growth across all of our stakeholders and all the different customer segments. So – and the other one that we look at is our expansions

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both through our construction volume as well as selling new products. We saw those both perform very well. And then on top of all of that as you have pointed out, we really focused on expense management, and we delivered both top line growth and the bottom line results that we were hoping to.

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

Yeah. Maybe just to touch on the cash flow piece. We did see a positive cash flow from an operating perspective. So continue to see some [ph] dynamic that's negative (33:50). All I would really say on free cash flow is reiterating what we've said in previous quarters and to expect the same as to what we've called out last quarter.

Brent A. Bracelin
Analyst, Piper Sandler & Co.
Q

Listen. Look forward to seeing you next week. Thanks for answering the questions. Efficient growth, I think, is [ph] a narrative (34:07) out there. We'd like to see more software companies in the space talk about. Thank you so much.

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

We trademarked it. Too bad. Thanks, Brent.

Operator: Thank you. The next question is from the line of Joe Goodwin with JMP Securities. You may proceed.

Joe Goodwin
Analyst, JMP Securities LLC
Q

Great. Thank you so much for taking my question. You called out the win with New Orleans in the public sector. Can you talk about your efforts serving the public sector, maybe how large that segment is today and how you see that opportunity developing over the next few years?

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

Yeah. Happy to. Public sector fits within our broader owner stakeholder. It's something we've talked about here for several years. It's a big area of growth for us. Public sector is an area that we continue to focus on. We believe there's a big opportunity there. Obviously, we've talked a lot about the infrastructure bill and the different areas that are going to continue to drive growth there. But in general, it's just one of many subsectors of that owner business, and something that is pretty well-diversified inclusive of the broader [ph] owner (35:09) business, which is why we so frequently call out when we think about exposure or our own diversification, that we have a really healthy mix across commercial, across infrastructure, city, state and all the other types of Fortune 500 segments that exists within the world of [ph] owners (35:24).

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

And by the way, I love calling it out, because when people think about Procore, they don't often think about our customers as being municipalities. But we have such a diversified portfolio that that is just one more example of how construction touches everyone's life.

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Joe Goodwin
Analyst, JMP Securities LLC

Q

Got it. Thank you. And then just a quick second one. It seems like the Levelset acquisition is performing better than expected. Can you just talk about maybe what's going on there, what's driving some of that strength?

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

A

We continue to be pleased with that acquisition. As we've talked about in the past, there were a lot of driving factors behind that acquisition. And the big ones really for us were around how we bring together this new massive dataset, use it to couple with Procore's dataset to think about some of these really interesting fintech opportunities we have as well as how we bring together their invoicing solution with our compliance solution and accelerate the ability to help people get paid. So, overall, in general, we continue to feel like that was a good addition to the overall Procore portfolio and we remain bullish on everything that is to come as a result of that combination.

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

That last piece I would highly encourage you next week to listen closely because there's some fun stuff coming.

Joe Goodwin
Analyst, JMP Securities LLC

Q

Got it. We'll do it. Yeah, looking forward to next week for sure. Thanks, guys.

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

A

Thank you.

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

Brent Thill
Analyst, Jefferies LLC

Q

Tooey, anytime a software company goes through a sales leadership challenge, there's little wake turbulence, if you will, that takes time to clear out. I guess maybe give us a sense of why maybe you don't feel that happens here. Is there ways that you're minimizing the turbulence post Dennis's transition? And then Paul can I just ask the question just – what caused those deals to come from Q4 to Q3? Was it just – you just had it in the pipe and they wanted to sign early? Was it they wanted a free pass to the conference next week so they've got to close. I'm kidding, obviously. But what – was there anything behind that early close?

Paul Lyandres
Chief Financial Officer, Procore Technologies, Inc.

A

Some of it was just really good execution on the sales team, being able to go out there and bring deals forward for folks who are excited to get started. Some of it had to do with renewals that were slated to happen in Q4 and whether these folks wanted to look to new software, whether they actually needed more volume early or whether they were just trying to get ahead of their own year. So, at the end of the day, it was a mixture of reasons, but all

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positive things that led to those deals coming forward and something that continues to give us conviction on the opportunity ahead of us.

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

A

And Brent, on the first question, yeah, so the privilege I've had is I'm going to look and see the talent that Dennis has assembled underneath him. And obviously, the execution has been really, really good. So I've been watching these folks perform for a long time now. So I'm also really, really looking forward to getting closer to portions of the business because I will have – I'll be one step closer to all of these folks.

And I want to give a shout out Bill Crawford, who's our SVP of Sales, has been running the US book of business for several years now. He comes from Ceridian and ADP, where he's got 20 years-plus experience. He's just been doing a wonderful job in that role, and I'm really proud of everything he's done and I think he's going to have a big impact not only on helping to continue to grow the US market, but now that he is over sales globally, our international business as well. So, really excited about the future. And Dennis isn't going anywhere, so there's not a lot of turbulence. It's just he'll be doing another role, and I think we're all looking forward to the next chapter.

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

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, Tooey. Hey, Paul. Two questions for me, both related to jobs. As it relates to your customers [indiscernible] (39:37) I know there's been a labor shortage. Sorry, I missed that. Have you seen any relief or your customers seeing any relief on any of these labor shortages?

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

A

So by the way, [ph] joking (39:50), we are hiring. I was just – I was not offering you a job, Jason. The – no...

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

[ph] I didn't see that (39:57).

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

A

...I really do wish I can say that, yes, that our customers are seeing relief. Now, it's not to say that there aren't a lot of things that are happening. I want to give a shout out to our Procore.org, our giving arm. They're partnering with ACE Mentor Program and NCCER and Apple to bring high school kids awareness around how great it is to work in the industry. We're promoting women in construction. We're trying to do everything we can to bring a diverse workforce in, but there's only so much we can do. And unfortunately, the industry is still really struggling with this labor shortage.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

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Okay. Perfect. And then second job related question. Have you changed any of your hiring plans? It looks like the margin improvement; just want to make sure it's not related to just adjustments on that side? Thanks.

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

Yeah, actually we had a great quarter when it comes to hiring and we continue to be really bullish on our opportunity to go out and find amazing talent. We've been investing heavily in places like go-to-market to meet the demand we're seeing in customers. And of course, like all other companies, we're being really thoughtful about where we allocate or head count and how we drive to the best most useful investments we can. But in general, when we think about the performance of the quarter, this really was about that scale of efficient growth, about ensuring that we're thoughtful about it, where we allocate expenses, and that we really continue to drive something that's sustainable over the long term.

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

I want to say that I have the privilege of every two weeks joining our new hire class just to welcome everyone to Procore. And what I'm struck with is the just the caliber of the talent that we're able to attract to the business, people that have been at scale, that are – just frankly, I'm honored to work with. So it's really exciting.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.
Q

Perfect. Well, look forward to seeing you both next week.

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

Thank you.

Operator: Thank you. There are no additional questions waiting at this time. And that concludes the Procore Technologies Fiscal Year 2022 Q3 earnings call. Thank you for your participation today and enjoy the rest of your day.

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