Procore Technologies, Inc.

NYSE:PCOR

Earnings Call

Wednesday, May 3, 2023 10:00 PM GMT

Call Participants

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Presentation

Operator

Good afternoon, everyone. I would like to welcome you all to the Procore Technologies, Inc. Fiscal Year '23 Q1 Earnings Call. My name is Brika, and I'll be your event specialist operating today's call. [Operator Instructions]

I would now like to turn the conference over to Matthew Puljiz. Sir, Matthews. Please go ahead when you're ready.

Matthew Puljiz
Vice President of Investor Relations

Thanks. Good afternoon, everyone. Welcome to Procore's 2023 First Quarter Earnings Call. I'm Matthew Puljiz, VP of Finance. With me today are Tooey Courtemanche, Founder, President and CEO; Paul Lyandres, CFO; and Howard Fu, SVP of Finance.

Further disclosure of our results can be found in our press release issued today, which is available on the Investor Relations section of our website and our periodic reports filed with the SEC. Today's call is being recorded, and a replay will be available following the conclusion of the call.

Comments made on this call may include forward-looking statements regarding our financial results, products, customer demand, operations and macroeconomic and geopolitical conditions. You should not rely on forward-looking statements as predictions of future events. All forward-looking statements are subject to risks, uncertainties and assumptions and are based on management's current expectations and views as of today, May 3, 2023. 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.

And with that, let me hand it to Tooey.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Thanks, Matt, and welcome, everyone, and thank you for joining us today. I'm going to begin by expressing my sincere gratitude for the team's hard work to deliver our Q1 results.

So let me dive straight in and share a few highlights from the quarter. In Q1, we grew revenue 34% year-over-year, and we added over 600 net new customers reaching over 15,000 total customers by the end of the quarter. We continued to demonstrate durable growth while improving operating leverage in the business. And for the third year in a row, we were named one of G2's Best Global Software Companies, reaching our highest ever ranking of #14 out of 100. This is a testament to the value that our platform continues to deliver to the construction industry.

Over the past 90 days, I have spent a lot of time on the road and had the privilege of meeting with our customers and shareholders all around the globe. Investors often ask me about the broader demand environment, and I continue to stay close to our industry elements. Our customers continue to share that their backlogs remain healthy and that in many cases, they're busier now than ever. And that the labor shortage is still the biggest challenge in meeting demand. Additionally, in aggregate, third-party external indices that we watch have remained stable. However, we did notice a new dynamic surface in Q1. Specifically, we saw some cautiousness on construction volume commitments for work that hasn't yet been awarded. We saw this within a small portion of our customers that came up for renewal in the quarter.

Let me give you a hypothetical example, which I believe will help illustrate this. Imagine that you're a construction company here in the U.S., you're hearing in the news about a potential recession and difficulty obtaining financing, but you're also reading about new government spending, record employment, and on top of that, you have a fully committed project backlog, which means that you have secured work for the future and are not necessarily concerned about the future pipeline of jobs. These mixed signals leave you confused, and naturally, leave you to be more cautious. Just in case your business takes a turn for the worse.

This simple scenario illustrates the slight conservatism some of our customers demonstrated in Q1. However, the external uncertainty has not reduced our customers' desire for efficiency or demand for technology. In fact, we have seen demand drive a return in net new customer adds, and the majority of customers are continuing to grow construction volume with Procore. Paul will elaborate further on these points later. They help illustrate why it's important to take each individual data point in context and to look at all of the internal and external indicators in aggregate to gauge the overall health of the industry.

Another nuance topic investors regularly bring up is the commercial real estate crisis and its impact on office construction. Let me be very clear. We do not believe that this is a notable headwind to our business for 2 reasons. First, office construction has been muted since 2019 and largely did not contribute to our success over the past 2 years. Second, office construction represents only a small percentage of the overall industry. Historically, we've described the construction industry as commercial, infrastructure and residential. This has created some confusion because folks often mistakenly equate office buildings with commercial construction. So I think it's important for me to take a moment to clarify how we view the overall industry.

Great place to start is with the U.S. Census Bureau's definition for construction spending. The highest level, they break down the construction landscape between residential and nonresidential. Within nonresidential, there are over 70 subcategories across lodging, commercial, health care, education, office buildings, public infrastructure, transportation and much, much more. To give you some perspective, office buildings comprise less than 5% of the total U.S. construction value put in place in 2022. As I've shared before, when demand in 1 sector wanes, oftentimes demand in other sectors grow. And while some areas within nonresidential like office buildings, have been impacted for a long time, more recently, we have seen healthy growth in other areas, such as manufacturing, education and data centers. Longer term, we also anticipate seeing further tailwinds from public infrastructure spend.

Ultimately, our customers manage diverse portfolios of work, and they will go to where the demand is. This is why when investors ask me about commercial real estate and office construction, my answer is more holistic. It's the aggregate construction volume and overall demand that matters most. While the broader environment continues to evolve in the near term, what is clear is that in times of uncertainty, customers prioritize efficiencies in the construction process, efficiencies that the Procore platform provides. Our focus remains on delivering powerful ROI to our customers with a mission-critical platform that helps them build better, faster, safer and more efficiently.

Let me share a few examples, starting with a new specialty contractor customer. Tri-City Electric Company of Iowa is one of the oldest and largest electrical contractors in the U.S. They work on a diverse portfolio spanning the industrial, commercial, multifamily and sports markets. Their legacy solutions lack the functionality that they require. And as a result, their field staff pushed for a change. Upon evaluating Procore, Tri-City Electric estimated that Procore could help them save over 300 hours per week in labor hours, through more efficient field office communication, representing a significant value-add. Ultimately, they chose Procore to displace their existing systems due to the meaningful ROI we deliver, advanced functionality and the support from our existing clients.

Not only are customers continuing to join Procore, they're expanding with us. W.A. Richardson is a Las Vegas-based general contractor with a focus on hospitality and entertainment and has built some of the largest projects in the history of Las Vegas. They originally became a Procore customer because of our advanced platform that enable collaboration and efficiencies across their teams. Over the course of our partnership, they continued to add new product offerings and expand construction volumes, including billions of dollars in construction value for 2 major hotel casino resorts this quarter. They plan to leverage our continued partnership to secure additional large-scale projects throughout Las Vegas.

In addition to general contractors, we continue to expand with owners. I mentioned earlier that data centers are an area within nonresidential construction experiencing continued growth. Vantage Data Centers is a leading provider of hyperscale data center campuses around the world. Over the past 5 years, they have grown exponentially to become a global operator across North America, EMEA and Asia Pacific. Having been a Procore customer in each of these regions, this quarter, they committed all of their construction volume to us globally to manage the execution and financials of their projects. Previously, they have been using project management, quality and safety and analytics globally, and testing out our financials and ERP connector products in each region. As part of this expansion, they are now using financials globally and are actively evaluating additional Procore products.

These customer relationships underscore the value our customers are getting from the Procore platform and our ability to help the industry solve its most pressing challenges. Speaking of which, over the past several quarters, you've heard us talk about our long-term Fintech opportunities and how they tie back to our overarching goal of helping our customers manage risk and accelerate growth. In March, we announced the launch of Procore Risk Advisors, one of our Fintech initiatives aimed at solving one of the construction industry's biggest challenges and largest upfront cost, insurance.

As a reminder, insurance in construction is complicated, cumbersome and expensive, all stakeholders on a project are contractually obligated to have relevant coverage for each individual project they work on. Insurance brokerage processes are still highly manual and time-consuming and insurance carriers lack visibility into new sources of risk data to properly select and price risk, which means construction has one of the most expensive insurance cost as a percentage of the industry's revenues, typically comprising multiple percentage points of a project's budget across all of these stakeholders.

This represents a great opportunity for Procore to help solve one of our customers' biggest pain points. Procore Risk Advisors is a modern construction brokerage that offers enhanced insurance and surety solutions. Ultimately, Procore will serve as a broker, and in some cases, help underwrite a subset of our customers' policies by leveraging our unique risk data. We aim to reward our customers for leveraging our technology and data to mitigate risk by providing them with better insurance pricing and terms. But to be very clear, Procore is not incurring any exposure to insurance claims with this program.

We believe that we are uniquely positioned to solve this challenge for a couple of reasons. First, we've developed a trusted brand with over 15,000 customers and millions of users, giving us valuable access to and relationships with the construction industry. Therefore, we have a unique opportunity to expand our platform of solutions, enabling a virtuous cycle of product adoption. What I mean by that is the more product lines and the higher adoption a customer has, the more data they generate that can help them drive insurance savings.

And second, our customers generate proprietary data that we can leverage to help them obtain favorable terms as well as enable us to offer proprietary insurance programs. This can also help our customers realize direct and tangible value from adopting Procore in the form of insurance savings. So Paul is going to share a bit more color on this later, but I want to emphasize that we are in the very early stages of this opportunity, and while it's a long-term initiative, we do look forward to sharing our progress as we continue to evolve and grow this offering.

Finally, many of you know that effective next week, Paul is going to be starting a new role at Procore as the President of Fintech, and he will be passing the CFO torch on to Howard. Look, personally, I want to just take a moment and thank Paul for his tremendous leadership and partnership over the past 4 years as CFO, helping to scale the business to where we are today, and I am thrilled to continue to partner with him to help unlock further value for our customers in his new role as President of Fintech. I also want to take a moment to welcome Howard as our new CFO, and I look forward to working more closely with him as we continue to scale.

To wrap up, we had another quarter of growth on both the top and the bottom line as we continue our journey of efficient growth. Looking ahead, we remain focused on executing on the long-term opportunities in front of us and advancing our mission of connecting everyone in construction on a global platform. I believe our close partnership with the industry, the exceptional team we have in place and our commitment to solving the biggest challenges in construction will create significant value for our customers and shareholders over the long term.

With that, let me hand it over to Paul.

Paul E. Lyandres
CFO & Treasurer

Good afternoon, everyone, and thank you, Tooey, for the kind words. As Tooey indicated, today marks my last earnings call as CFO. It has truly been a privilege working with all of you, and I want to thank you for the partnership as I embark on my next chapter at Procore, leading our Fintech organization.

Now on to the quarter. Today, I'll quickly recap our results, share some color on our performance and hand it over to Howard to conclude with our outlook. Revenue in Q1 was $214 million, up 34% year-over-year. Our non-GAAP operating loss was $4 million, representing an operating margin of negative 2%. And our key balance sheet metrics, specifically short-term RPO and short-term deferred revenue, continued growing 30% or greater year-over-year.

Our Q1 performance was well around in that we saw growth across multiple facets of the business. I'd like to take a step back and share some additional color on our performance. First, you may recall back in Q4, we noted a sequential drop in net new customer adds from Q3, primarily driven by higher logo churn within our smallest customers. As we shared, this did not have a material impact on our Q4 financial results, given dollar churn performed as we expected. That said, we wanted to call out that what we saw in Q4 is not yet proving to be trend as we saw net new customer adds return to historical levels.

Second, as Tooey mentioned, this quarter, we started to see a small portion of our customers exercise some cautiousness in their construction volume commitment. Although this wasn't apparent in our financial results, in the interest of transparency, we wanted to provide some color on what we saw. We believe this reflects a heightened sense of conservatism within a minority of customers only committing volume for work that has already been awarded. Despite this, we still saw an increase in the share of our customers growing construction volumes within Procore, representing the majority of our customer base. As Howard will explain shortly, our previous and current outlook already factor in the potential for cautious customer sentiment.

Third, similar to prior quarters, our Q1 International results were impacted by currency headwinds. On a year-over-year basis, FX contributed approximately 8 points of headwind to International revenue growth and 1 point of headwind to total revenue growth. Therefore, on a constant currency basis, International revenue grew 35% year-over-year and total revenue grew 35% year-over-year.

And finally, over the past few quarters, you've heard us reference our pursuit of efficient growth and how this is being instilled across the organization as a priority we need to improve upon. This quarter, we saw this mindset manifest in the business. Specifically, our lower expense profile in Q1 was unique as it was a result of relatively smaller savings across numerous areas that, in aggregate, resulted in meaningful outperformance as compared to our guidance.

While this included things like less travel and onetime hosting efficiencies unique to Q1, notably, it did not consist of intentional hiring delays, lower commission expenses or other reductions typically related to sacrificing top line objectives. In fact, we actually had a lower employee attrition rate in Q1 than anticipated. While we intend to continue making improvements to our efficiency profile, the magnitude of the savings captured in Q1 is not necessarily something investors should expect to repeat in Q2.

Before I turn it over to Howard to provide our outlook, I want to spend a few minutes sharing a bit more on Procore Risk Advisors. Procore has the unique opportunity to help alleviate a major pain point for construction in the world of insurance. I want to emphasize that we are in the early stages of this offering, and are expecting a long journey ahead in growing the types of coverage we can broker and help underwrite.

In terms of monetization, there are currently 2 avenues. The first is through serving as a broker by which we sell policies from third-party carriers and earn a brokerage commission, which varies by policy type. And the second is through serving as an underwriting agent for select policies, whereby Procore partners with the carrier who is taking on the claims risk in their evaluation of the policy, providing additional industry expertise and enhanced data in exchange for a share of the premium.

It's important to note that in both of these cases, we take on 0 balance sheet exposure to claims. Because to be clear, we are a distribution partner for the insurance carrier who bears the risk of the insurance claims. From a financial perspective, we do not expect material top line contribution over the next few years related to this effort. I'm incredibly proud of the work our team has done to launch Procore Risk Advisors, and I look forward to nurturing this initiative in my next role as President of Fintech.

With that, I'll pass it over to Howard to provide our outlook.

Howard Fu
Senior Vice President of Finance

Thanks, Paul, and thank you to everyone on the call. Before I share our outlook, I want to remind folks of our guidance philosophy, which remains unchanged. We set our revenue and margin guidance at a level that we have very high conviction we can deliver on in almost any environment. Specifically, our guidance not only takes into account the cautious customer sentiment we observed this quarter, but also allows flexibility for it to become further pronounced. With that, here is our guidance for Q2 and full year 2023.

For the second quarter of 2023, we expect revenue between $216 million and $218 million, representing year-over-year growth between 25% and 27%. Q2 non-GAAP operating margin is expected to be between negative 7.5% and negative 8.5%. For the full year of fiscal 2023, a we expect revenue between $908 million and $912 million, representing total year-over-year growth between 26% and 27%, which is an increase of $12 million from our previous full year guide. As Paul noted, given the early stages of our Procore Risk Advisors insurance offering, we are not expecting material revenue contribution from that initiative this year.

Non-GAAP operating margin for the year is expected to be between negative 5.5% and negative 6.5%, which represents an improvement of 100 basis points from the guidance we issued last quarter, and implies year-over-year margin expansion of 450 basis points.

As Tooey and Paul indicated, next week, I will be starting my next chapter with Procore as CFO. Over the last 2 years, I have had the opportunity to work with Tooey, Paul and the leadership team, and I have developed an appreciation both for everything Procore has accomplished over the past 2 decades as well as the tremendous potential ahead. I look forward to working closely with all of you and continuing to advance Procore's mission in my new capacity as CFO.

To close, I'd like to thank our customers, partners, employees, shareholders and the industry as well as the communities we serve for giving us this opportunity.
Now let's turn it over to the operator to begin Q&A.

Question and Answer

Operator

[Operator Instructions] We have the first question in the phone lines from Sterling Auty of MoffettNathanson.

Peter Sterling Auty
SVB Securities LLC

Paul, what a way to finish as CFO with a mic drop on these results. But maybe for my question, I'll turn to Tooey. You talked about broader indices for construction being stable. What would you say to investors in terms of what should they be looking at in terms of these broader industries to determine whether they should be encouraged or maybe concerned about the performance of Procore as we move through the remainder of the year?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. Well, by the way, Sterling, great to hear from you, and great question. Well, the first thing I would point out to anybody is don't over-index to any 1 particular data point. We look at a lot of external factors as well as internal factors when we kind of come up with our overall sentiment. But I will say when I look at the quarter, the conversations that we've had with the customers have all been very largely positive as they have been in the past. Backlogs remain strong. Labor shortage is still the #1 challenge. But as I mentioned in the opening remarks, there are some kind of mixed signals.

Great example of this is I was talking to a customer the other day, and I asked them about their backlog. And he literally referenced a Tsunami of work that he has to deal with. But then in a follow-up call to another customer as they were talking about their backlog, they said it was all good, except they had 1 project that had -- was unable to obtain financing after talking to many, many banks. And he was convinced that a year ago, this deal would have been financed.

So there's all these different contradicting data points. But we haven't heard anything from our customers that indicate that these challenges are widespread or systematic, but we -- when we come back to thinking about what we are thinking, I want you to know that we are confident in our ability to deliver upon what's in our control. But we do, just like all of you do, look at these external data points, but we only try to interpret them in aggregate.

Peter Sterling Auty
SVB Securities LLC

That makes sense. And maybe just one quick follow-up. So is that concern, you mentioned that example about financing, is it a tighter credit market that's more the concern? Or would it be concern that in the cost savings efforts that customers would decide to either delay or cancel projects that are currently in a GC's backlog?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Well, let me zoom out a little bit, Sterling, and say that this is a single example in many, many phone calls that I had. So I don't know the specifics behind that particular deal. I just know that the sentiment was that this deal might have been financed last year when it wasn't financed today. But again, that's just 1 small data point, but I'm trying to illustrate the fact that there's so many -- the industry is so big and there are so many different sectors, that everyone is experiencing it slightly differently.

Operator

We now have DJ Hynes Of Canaccord.

David E. Hynes
Canaccord Genuity Corp., Research Division

Paul, maybe one for you. Just sticking with some of the headwinds or the pockets of challenge that you're seeing. What are you seeing in terms of duration on new deals? And I guess the reason I'm asking is I'm just trying to kind of triangulate around what we're seeing in RPO growth versus cRPO growth? I mean the latter is obviously much better. Is duration playing into it? Is that where there's some of the conservatism?

Paul E. Lyandres
CFO & Treasurer

When you look at the long-term RPO, which I imagine is what you're referencing here, what I would tell you is there's a component of it that comes tied to that conservatism that Tooey was talking about, but I would not over-index that as the meaningful driver of it as much as long-term RPO has a lot of moving variables around the timing of multiyear renewal when those come up. There is traditionally a lag between Q4 to Q1 in general. And so for the most part, what you're seeing in long-term RPO isn't something that drives concern, but there is an element of it of customers being more cautious to sign up for larger, longer-term commitments.

David E. Hynes
Canaccord Genuity Corp., Research Division

Yes. Okay. And then maybe a more strategic question. So quality and safety, I think, is one of your more mature products. So Part A is like where are you in terms of attach rates there? And then more interestingly, Part B, does the entrance into insurance and kind of the potential to deliver these data-driven cost savings, in any way, accelerate adoption of quality and safety in the base?

Paul E. Lyandres
CFO & Treasurer

Great question. So look, I'd actually bring you back to the Investor Day we had alongside Groundbreak where we talked about what the share of our wallet looked like in terms of which products drive which amount of our overall ARR. And if you'll recall, the narrative we've always given is the older the product is, the more penetrated it is in our marketplace or among our customer base, and quality and safety is one of our oldest product.

So we have a pretty healthy majority penetration there. And we do believe that will not only help us as we think about the data we can provide to carriers and partners as we go about this insurance initiative. But to your point, it does, in our mind, believe they create this opportunity to bring the rest of the folks along for that ride with quality and safety because we do believe that the more you adopt these solutions and the more we can prove the carriers that you're adopting best practices, the better rates we'll be able to get you. However, keep in mind, it's not unique to quality and safety. There's data and project management, there's data and financials. There's data across multiple different products that we believe will be valuable in time.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. DJ, just to think of it this way is that because we're in the risk management business, primarily with our software, all of our products add to contributing to understanding risk. So there's a benefit for insurance folks to encourage the adoption of all of our product suites.

Operator

We now have Saket Kalia of Barclays.

Saket Kalia
Barclays Bank PLC, Research Division

Tooey, maybe just to change it up a little bit from the environment. I'd love to talk a little bit about the competitive landscape. I think you've talked about this a little bit in prior calls. Just maybe some slight shifts in the competitive landscape. Curious if you could just give us an update on that, particularly as maybe there are, I don't know, some changes in the macro backdrop as well.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. So Saket, good question. Here's the kind of the short answer is that there really has been no major updates from last quarter, like we haven't seen anything significant change at all. One of the things I pointed out last quarter, which I want to restate was that in 2022, we saw one of our largest competitors less frequently than we did in 2021, but we won more ARR against them. And maybe that's the change you're referencing that we had seen, and which, again, is a testament to the value, I think, we provide the industry.

But I want to kind of be very clear, we have not seen any competitive dynamic changes that are meaningful. And remember, you know this probably very well that the -- 50% of the folks we talk to every day are coming from analog pen and paper greenfield opportunities and is not a competitive dynamic. So not much to report on that front.

Saket Kalia
Barclays Bank PLC, Research Division

Got it. Got it. And yes, that was the one that I was referring to, so very helpful update. Paul, maybe for you. I know it's hard to break out the exposure that Procore has. I think you said 70 -- or I think, Tooey said 70 categories or subcategories of construction. But I think we mentioned something like 5% or under 5% from office construction. I don't want to put words in your mouth, and I know it's really hard to sort of break this out. But is that industry mix a good proxy for Procore?

Paul E. Lyandres
CFO & Treasurer

Yes. So look, I would clarify, the 5% we're referencing is construction in the industry, not specific to Procore's customers. But along those lines, I would tell you, what we've shared with investors over the years remains consistent, right? Where we don't have meaningful exposure is kind of single-family residential, that arm of the world. And so as long as you back that mix out of how to think about it, I would tell you, looking at the distribution of those 70 categories is the best proxy that we can give you to how to think about the distribution of our own business. And it's why we consistently point back to the aggregate of construction volume being the critical metric to watch.

Operator

Your next question comes from Brent Bracelin with Piper Sandler.

Brent Alan Bracelin
Piper Sandler & Co., Research Division

I wanted to go back to just the diversification of the model here. Just as we think about the strength in RPO that really stood out to us, especially given an environment where you had, I think, residential starts down 29%; overall market down 9%; non-res, I think, it was up 11%. So walk us through the business model? Is this just more diversified relative to your ability to sell more products into the base? Are you just seeing a shift in where the construction is coming from? Any color to help us pinpoint kind of the strength you're seeing versus what looks like a challenging kind of cyclical industry kind of headwinds. I get those mixed signals. We're going to be in an environment with mixed signals for a while, but in the quarter, pretty good strength here. I'm trying to understand why.

Paul E. Lyandres
CFO & Treasurer

Yes. I mean, look, you kind of spilt it out when you started to describe the numbers you have seen, right? We saw residential take a pretty meaningful hit, where you saw nonresidential actually show strength and resilience. And what we were kind of trying to call out what Tooey was speaking to earlier in his remarks is when we really think about Procore, we certainly have meaningful business within the world of multifamily. So I don't want to say we don't participate in residential. But if you actually go carve-out multifamily, its numbers will look very different than the broader residential category.

Where we are really playing is in that nonresidential world, and that's why I bring it back to say, the strength and resilience of Procore's business has to do with the fact that our customers touch all of the categories that make up nonresidential, and they themselves manage a very diversified book. And so we have the benefit of really going alongside with them in this journey of watching the industry shift but watching overall construction volume continue to increase.

And so that is obviously a very healthy contributor for us in terms of that cRPO. But I don't want to diminish that we are continuing to see good success in that cross-sell dynamic and the ability to drive further penetration with more of our products. And so the 2 of those things certainly combined contributed to that success.

Brent Alan Bracelin
Piper Sandler & Co., Research Division

Helpful color. And then just one quick follow-up. As we think about the transition, Paul, to Howard. You're obviously going to be entering a new role next week. I appreciate the low bar you're creating for yourself talking about no material contribution from Fintech Services and look forward to the conversation with Howard next quarter on contribution.

But in all seriousness, as you think about the portfolio, growing portfolio of FinTech Services, Risk Advisors, Procore Pay, Materials Financing, PCN in there, what do you spend your time on next week? What are you most excited about relative to what impact you can have dedicating your attention to kind of those 3, 4 areas?

Paul E. Lyandres
CFO & Treasurer

Yes. Look, that's the wonderful thing about the transition -- sorry, I'll answer it on my half, and then I'll let Howard speak to it as well. I'm going to be spending my time across those different portfolios. I think, for us, the driver of this decision in this transition, what we had talked about in the previous call, really comes back to this idea that we've got a really deep bench, obviously, tremendous amount of confidence in Howard and the finance team, and that there's just a really big opportunity here to go focus and dedicate that energy to where I can have the biggest impact. So pretty excited to kind of focus across the board, but I might have taken Howard's question.

Howard Fu
Senior Vice President of Finance

No. That's okay. So I, too, am continuing to be very excited about where Procore is going. A couple of things I want to make sure I call out is that, look, for better or for worse, Paul and I have been joined at the hip over the last 2 years. And so we are very aligned in terms of where the business is going from a strategic, operational and financial standpoint. Specifically about where I'm going to focus my time, I typically would break it up into 3 categories, and there's a lot of different directions to go in those different categories.

First is around operational excellence. And this ties back to what Tooey has been talking about in terms of efficient growth. The second, to your point, is around monetization and making sure that we have lined up monetization across both the short -- the medium term, the short term, the middle term and the long term. And then to connect both those 2 things together, the third category is really about capital allocation in terms of where we deploy our resources by geo, by product and all across the different functions within the company. And that is actually really a continuation of what we've been already doing and what

I've already been focusing over the last couple of years along with Paul and Tooey and the rest of the leadership team.

Operator

We have Brent Thill of Jefferies.

Brent John Thill
Jefferies LLC, Research Division

Tooey, just back to the -- some of the headwinds you started to see. Can you just give us a sense of the magnitude? Are there any commonalities in terms of where you saw that? Did you see it later in the quarter, earlier in the quarter? Just any additional color there?

And I guess for Paul and Howard, your guidance is above the magnitude of the beat. So many are asking kind of the confidence of raising above the magnitude of the beat, what's enabling you to do that?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Sure. Well, I'll start with the trends, which I will tell you are -- there are -- we don't see any at this point. So the commonalities are really hard to tie together. But I think what they're doing is -- I really sympathize with anybody who is thinking about their business right now because if you read the news, there's a lot of reasons to be a little spooked about the economy. And so in general, we think it's just coming up and conservatism is kind of across the board. But there isn't 1 segment, there isn't 1 geo, there isn't 1 stakeholder that's standing out.

Paul E. Lyandres
CFO & Treasurer

Yes. And then to touch on the guidance piece, Howard mentioned this, I mentioned this in our overall call. The reason we're bringing up the theme of conservatism here is that we really want to be transparent with you all as to the various different data points we're seeing in our business. But when we set our guide at the beginning of the year, we were very intentional to tell investors that this guide factors in a macro environment that gets notably worse in time, and we would still be able to hit against that guide. And what we're telling you now is while we've seen some degree of cautiousness out there, that we still have a lot of conviction in the guide we put out there and that you all should feel very comfortable that even in a world where we see this cautiousness get worse, that we will still deliver on the guide we provided. Howard, anything to add there?

Howard Fu
Senior Vice President of Finance

Yes. Just a couple -- one small thing is just to echo that we are highly confident in hitting the guide. Keep in mind that we not only put -- had that philosophy in Q1, but we have that philosophy in Q2 in addition to also continuing to raise our guidance on the top and bottom line, and we still feel that way with that raise.

Operator

Your next question comes from Dylan Becker of William Blair.

Dylan Tyler Becker
William Blair & Company L.L.C., Research Division

Maybe, Tooey, from a high level, to the extent that repurposing or retrofitting maybe some of the office dynamics you called out and how that plays into maybe broader sustainability and ESG initiatives, is that coming up in kind of customer decisioning? I know there's a lot of historical waste in construction. You've got a complex regulatory environment and layering in kind of visibility and transparency. But is that something that customers are prioritizing and kind of maybe driving some of the decisioning process here as well?

Craig F. Courtemanche
Founder, Chairman, CEO & President

It's a great question. We -- so we're seeing a lot more of this outside of the U.S. market, so EMEA, in particular, where this is a topic that will come up with conversations with our customers there. But I think you're right, which is Procore has been trying to solve this challenge of the $500 billion worth of waste and rework that happens every year. And that is a tremendous impact on both our economy as well as our environment. So we've been heavily focused on it. We had an enterprise customer advisory board meeting recently. And I would say that about 5% of the time was talking about ESG tracking and management. So it is out there, but it's still relatively muted in the North America market. But I think over time, we're going to see a lot more of this.

Dylan Tyler Becker
William Blair & Company L.L.C., Research Division

Got it. That makes sense. And maybe that kind of flows into the second question on International. I know kind of a progression and path to improvement here. But thinking about maybe that regionalized segmentation and maybe how partners can play a role in supporting some of that broader productivity ramp you guys have called out that you expect to kind of layer in over time as well.

Paul E. Lyandres
CFO & Treasurer

Yes. Look, I think we've talked about this in the past in terms of how we think about partners internationally. And the honest answer is we see it similar to how we approach the U.S. market in the sense that we will meet the customers where they are. And so different markets have a different motion in leveraging partners, and that's true of resellers, but it's also true of integration partners. It's true of lots of different components of how these industries go about digitizing. And so as we think about our international markets, we're very thoughtful to understand how the different markets need to be served differently, and we are prepared to meet the customers, as I said, where they are.

Operator

We now have Adam Borg with Stifel.

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

Maybe first just on the International business going back to that, where are we with those -- the operational changes that we've been talking about? And when we think -- when could we expect this improvement? And then I have a follow-up.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. So we mentioned this last quarter. So I want to say for this quarter, there are no major updates. We continue to make improvements, which I'm very pleased with. But this is one of those things that's not going to be fixed overnight. So as we shared before, we expect to see improvements towards the end of this year, but there's nothing kind of significant right now to call out, but when there is, you'll certainly hear it from us.

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

Awesome. Maybe just a quick follow-up. You talked obviously a lot about the pockets of macro concern. Just curious the first, call it, 4-plus weeks of the second quarter, the month of March. Any change in the demand environment overall or any change in those macro commentary that you talked about earlier?

Paul E. Lyandres
CFO & Treasurer

Yes. I'd tell you there's nothing meaningful to call out there. We're still very early into Q1, and we will keep you posted when we -- sorry, Q2, and we will keep you posted when we report here in 90 days.

Operator

We now have Ken Wong with Oppenheimer.

Hoi-Fung Wong
Oppenheimer & Co. Inc., Research Division

Tooey, we touched on financing earlier and we all see the headlines with the regional banks. I guess do you have a view on kind of what that impact could be? What is the consolidation in the banking sector potentially what that impact is on your end market customer? And then to Paul or I guess maybe you as well Tooey, do you potentially see any pullback from regional bank lending to construction as a potential opportunity for your own capital lending aspiration?

Craig F. Courtemanche
Founder, Chairman, CEO & President

So on the first point, yes, we -- this is not a topic that has been a trend that I've got enough information on to speak in terms of something that's going to impact Procore. But again, we do hear these anecdotal stories, but they are still somewhat few and far between.

Paul E. Lyandres
CFO & Treasurer

Yes, I think we really -- it's one of the mixed signals. There's a lot of positive trends. There are some that provide cautiousness, and we are committed to keeping you all posted as we continue to learn more. But at this point, there's a lot of contradicting comments out there.

In terms of your other question on the pullback of banking, I think I can be very simple. No. No way. Our material financing program is a very unique, specific program. This is not our business -- we do not plan to become a bank lender.

Operator

Your next question comes from Kash Rangan of Goldman Sachs.

Kasthuri Gopalan Rangan
Goldman Sachs Group, Inc., Research Division

Congratulations on the quarter, Paul and Howard. Howard, congratulations on your new role. It's pretty remarkable. You guys are putting up these numbers, whether it's a good economy, bad economy, whatnot. If you get -- construct or deconstruct the growth algorithm. So, let's say, commercial construction is going to grow 4%, 5%, and Procore is going to grow, I don't know, pick a number, 30%. If you can just help us understand what are the broader parts of the multi-hundred billion dollar construction industry that you're particularly leveraged so we can understand what really drives your growth?

Because I think, Tooey as you mentioned, it's very hard to not react to the headlines, slowing economy, banks lending less, credit crisis, whatnot. At the same time, you guys are putting up -- you added 609 new customers, which is more than what you added in Q4, typically, software companies have the seasonality in Q1, but you're bucking this. So if you can just deconstruct that growth algorithm, what are the -- I think you mentioned, one, out of commercial construction is -- office is 1 out of 70 subsets. Just things like that so we can come up with a deconstruction of the growth algorithm, link the left extreme, which is the growth in the industry to the growth at Procore, that will be mighty useful.

Paul E. Lyandres
CFO & Treasurer

Yes. No, happy to take that one, Kash. I think this is the beauty of the business we have and the diversification of the industry. I'd bring you back to kind of that comment Saket had made earlier in this call. In terms of thinking about those 70 different categories and appreciating that we, Procore, are pretty diversified across those 70 categories. What that really means, Kash, is we are still super early days in the overall penetration of the overall TAM. We're early days in the ability to cross-sell and drive more products into our customers.

And so in the arc of time, we continue to be bullish on the opportunity for the business. But the cautiousness components, the things we've seen with customers, they do create a mixed signal out there that can cloud the short term. And so the growth algorithm for us, when you really think about it over time, remains highly underpenetrated market that needs to digitize with tons of wallet share opportunities. We are more bringing the short-term component of saying like, "Hey, it's an unknown macro environment out there, and we have to be mindful of that."

Kasthuri Gopalan Rangan
Goldman Sachs Group, Inc., Research Division

So your point is that even if the industry grows slowly, you're gaining more share of that wallet? Your customer count is, I don't know, less than 16,000 but then drop in the bucket a relative to the number of firms. And so therefore, you can grow horizontally, capture more of the customer base while the customer base itself is probably not growing that rapidly. Is that the high-level algorithm? And then you have, to your point, the yield, you have certain basis points of the value of construction, which you continue to gain share as you sell more modules. Is that the rough way to think about the growth algorithm for the company?

Paul E. Lyandres
CFO & Treasurer

Yes. I think that's a good way to think about it.

Operator

We now have Matthew Broome of Mizuho Securities.

Matthew Fraser Broome
Mizuho Securities USA LLC, Research Division

Congrats on the results, guys. So I guess, when you spoke about some customers being more cautious to sign up those larger, longer-term commitments. Just so I'm clear, does that mean the caution was coming from larger customers? Or was it around? And am I hearing that correctly? Or if you could clear that up.

Paul E. Lyandres
CFO & Treasurer

Yes. No, I would tell you, as we shared earlier, there wasn't any particular call out with respect to where -- which type of customer, which segment of customer we saw that from. It was more of a reflection of we saw it in a small pocket of our customer base. Now it's worth reminding, this was where this mixed signal piece really does come to play because we saw the share of our customers that grew their construction volume grow and represent a majority of our customers. And then we show the share of customers that are downgrading also grow, which you can imply means the customers that renewed flat went down.

Matthew Fraser Broome
Mizuho Securities USA LLC, Research Division

Okay. That makes sense. And then I guess how has the activity been trending on the Procore Construction Network?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. So by the way, it's an area that we're all very excited about. It is very much a big part of our connected strategy to bring everybody together on our platform. We are still building, and we're still assembling -- trying to get everything coming together. There's no really new news to announce, but you're going to be hearing more about it in the next couple of quarters. And it's something I'm particularly very excited about.

Operator

Our final question comes from Jason Celino of KeyBanc Capital Markets.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Last question here on kind of that small portion of customers exercising the caution. Given kind of the way your model works, if these customers do decide to true up later in the year, hypothetically, they would pay more. So I guess, can you just talk about like what the customer is evaluating and the puts and takes?

Paul E. Lyandres
CFO & Treasurer

Yes. I mean, you kind of did a great job summarizing it there yourself, Jason. Like that is the right way to think about it, right? Our pricing is based on overall construction volume of a customer that they're going to run through the platform. We will give customers volume discounts for signing up for additional volume.

And so in an instance where a customer is proving to be more conservative, they're going to sign up for less volume, but they're going to pay a higher take rate, which means to the extent they end up burning through that amount of construction volumes sooner than their contract, they're going to end up upgrading in the middle of that cycle at a higher take rate than they otherwise would have had they committed a larger volume upfront.

And I think that's the benefit to our model and something that we're mindful of could be a tailwind to us depending on where the world goes.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Okay. Perfect. And then actually, one quick one on sales and marketing. It looks like it was flat quarter-over-quarter and you're showing some really nice leverage. Just wondering if there was any hiring or sales investments that just got moved later?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Our hiring in Q1 actually performed quite well. The other thing I'll remind you is we are -- our broader hiring across the company, not just in sales and marketing, are very -- we're being very deliberate about who we hire, how we hire, when we hire and what we hire for. And that has been a trend that we've been on and a focus that we've been focused on since last year. So it's actually nothing new. And so we're actually seeing really good dynamics from a hiring standpoint. In fact, our attrition has actually performed really well in Q1.

Operator
I can confirm we have no more questions. And this does conclude today's call. Please have a lovely day, and you may now disconnect your lines.