

22-Feb-2022

Procore Technologies, Inc. (PCOR)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Matthew Puljiz

Vice President-Investor Relations, Procore Technologies, Inc.

Craig F. Courtemanche

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

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

OTHER PARTICIPANTS

Luv Sodha

Analyst, Jefferies LLC

Brent A. Bracelin

Analyst, Piper Sandler & Co.

David Hynes

Analyst, Canaccord Genuity LLC

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Brian Schwartz

Analyst, Oppenheimer & Co., Inc.

Austin Gewecke

Analyst, Stifel, Nicolaus & Co., Inc.

Saket Kalia

Analyst, Barclays Capital, Inc.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good evening. Thank you for attending today's Procore Technologies, Inc. FY 2021 Q4 Earnings Call. My name is Celina, and I will be your moderator. All lines will be muted during the presentation portion of the call, with an opportunity for questions-and-answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Matthew Puljiz, with Procore Technologies. Please go ahead.

Matthew Puljiz

Vice President-Investor Relations, Procore Technologies, Inc.

Thanks. Good afternoon, and welcome to Procore's 2021 fourth quarter earnings call. I'm Matthew Puljiz, VP of Investor Relations. With me today are Tooey Courtemanche, Founder, President and CEO; and Paul Lyandres, CFO. A complete disclosure of our results can be found in our press release issued today, which is available on the Investor Relations section of our website. Today's call is being recorded, and a replay will be available following the conclusion of the call.

Comments made on this call may include forward-looking statements regarding our financial results, products, customer demand, operations, the impact of COVID-19 on our business, and other matters. These statements are subject to risks, uncertainties, and assumptions, and are based on management's current expectations as of today, February 22, 2022. Procore undertakes no obligation to update any forward-looking statements to reflect new information or unanticipated events, except as required by law.

If this call is replayed or viewed after today, the information presented during the call may not contain current or accurate information. Therefore these statements should not be relied upon as representing our views as of any subsequent date. We'll also refer to certain non-GAAP financial measures to provide additional information to investors. A reconciliation of non-GAAP to GAAP measures is provided in our press release.

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

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

Craig F. Courtemanche

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

Thank you, Matt, and thank you, everyone, for joining us today. In the fourth quarter, we delivered excellent results and continued to make great progress towards our mission of connecting everyone in construction on a global platform. I am very proud of the work our team did by closing out the year strong, continuing to integrate our recent acquisitions, expanding the depth and breadth of our platform, and as always, investing in our people and culture. Today I'll start by providing additional color on our results, and I'll share what I'm looking forward to this year and beyond. So let's dive in.

Annual revenue surpassed a \$0.5 billion for the first time in our history, and I am very grateful to our customers and employees for getting us to this milestone. Our deep and expanding customer relationships drove this outstanding performance. On an organic basis, we ended 2021 with greater than 12,000 customers. The number of organic customers contributing more than \$100,000 in ARR grew by 32% to end the year north of 1,100. We also ended 2021 with a total of 30 organic customers contributing more than \$1 million in ARR, an increase of over 50% from the previous year.

Most of these customers initially landed with much smaller contract sizes and grew to surpass \$1 million in ARR in just a few years. This progression underscores how we are really just beginning to digitize this industry. Our customers are also heavily engaged with our platform. We now have over 2 million active users. These users uploaded 400 million photos, documents, and inspections last year, reflecting continued growth in our platform usage.

We expanded the depth and breadth of our platform, adding nearly 100 new partners to our App Marketplace in 2021, bringing total integrations to nearly 350 by the end of the year. Today, 91% of our customers use at least one integration, up from approximately 81% a year ago. This is important because higher adoption of marketplace integrations is strongly correlated with logo retention and customer success on the platform.

2021 provided further evidence that once our customers adopt our leading platform solution, they stay with us. Our gross retention rate improved to 95%, reflecting the value our platform brings to the industry. Our customers are not only staying with us, they're expanding. BE&K Building Group, a US-based general contractor, expanded and deployed Procore enterprise-wide after an initial evaluation. They selected Procore due to our comprehensive and unified platform that allowed them to replace multiple disparate solutions, including competitors.

We also added new GCs to the platform. Nabholz Construction is growing into new regions in the US, where Procore is already heavily used by owners and specialty contractors. After a competitive evaluation, it became

clear that Procore was a solution that could grow with them and will enable them to best partner with their new stakeholders.

Outside the US, we continued to expand internationally. Ferrovial Construction is one of the largest global builders. They operate across several continents with unique requirements and regulations. After evaluating several systems, they chose to partner with Procore, given our flexible yet standardized platform.

Procore is gaining significant momentum with owners as well. In Q4, two major multinational pharmaceutical companies became Procore customers. The largest of these two deals relates to the expansion of their facilities to increase capacity for the development of lifesaving products. Their leadership identified Procore as the optimal solution to improve efficiencies, while managing their increasing construction volume.

And finally, Pueblo Mechanical, a US specialty contractor, is pursuing an aggressive growth strategy. In order to scale, they needed to implement standardized processes across all of their subsidiaries. They chose Procore because of our robust platform and the flexibility it provides them to connect to various ERPs across their subsidiaries. I personally enjoyed my time that I was able to spend with the Pueblo team, and I really admire their ambition and focus.

I'm not only pleased with the customers that joined us and the financial results that we delivered. I am really most proud of our ability to grow the business while maintaining the culture and partnership that sets Procore apart, and we continue to be recognized for this. In November, we were named the 2021 Philanthropist of the Year by the United States Minority Contractors Association. More recently, we were ranked as the number one construction project management software by the JBKnowledge Construction Technology Report for the fifth year in a row. And we were just named as one of the Best Places to Work in Glassdoor's Employees' Choice Awards. I am particularly proud of this recognition by our employees, as it signifies our ability to maintain our unique and values-driven culture, even as we rapidly scale.

So the results we delivered, the customer relationships we developed, and the recognition we received reflect how well-positioned Procore is to lead the construction industry in its digital transformation. Change is constant in construction, and in 2021, we continued to support an industry through a highly dynamic environment. Over the last two years, you've heard us and many others talk about the broader macro environment. I'd like to share our perspective on this topic.

We see 2021 as a transition year, from playing defense and navigating unprecedented challenges in 2020, to playing offense in capitalizing on opportunities in 2022. Listen, some very real headwinds continue to impact the construction industry, though we do expect that many of these challenges will resolve themselves over time. With that said, there are some favorable and lasting tailwinds with regard to Procore's business, above and beyond the catalysts we've shared before.

First, the hybrid working model, made possible by cloud solutions like Procore, is likely here to stay, for some of the folks who were previously expected to be on the jobsite every single day. And second, the labor shortage, exacerbated by an uptick in early retirements, has prompted an increased reliance on younger members of the workforce. And this future generation of builders have expectations of using consumer-grade and mobile-centric technology, like Procore, in their work. Ultimately we believe there's enough tailwinds offsetting the headwinds, that we're not anticipating any outsized positive or negative impact on Procore's performance due to external forces. As such, we are more confident than ever that we should be leaning into the opportunity. This past year was an excellent example of that.

Now let's get into what we're planning for 2022 and beyond. Look, I've been doing this for 20 years, and I firmly believe that we're entering one of the most exciting and transformative chapters in Procore's history. We're starting the year confident, with an exceptional caliber of talent and a brand and a platform that have never been stronger. So here's what's top of mind for me as I look towards the future.

First, the opportunity is massive, and we have multiple avenues for continued growth ahead of us. You've heard me say this many times, that we're operating in a truly massive global market that's significantly under-digitized and underpenetrated. I believe that nothing will illustrate this more clearly than if we zoom in on the US market.

Look, in 2021, the US construction industry was approximately \$1.5 trillion in annual construction volume. Keep in mind, the majority of the spend flows through all three stakeholders: the owner, the general contractors, and the specialty contractors. That means that we estimate the true opportunity for Procore in the US is approximately \$3.5 trillion. So when you drill down on just US general contractors, and then you drill down even further to US enterprise general contractors, there's about 2,500 logos in this cohort alone. These 2,500 logos represents close to \$900 billion in annual construction volume, of which we are just under 25% penetrated. This cohort is thought to be the most digitized, and we still have so much more runway.

So if you take a step back and look at it, the broader spectrum of customer sizes, all three stakeholders, and geographies beyond the US, it becomes abundantly clear just how large Procore's global opportunity actually is. In fact, we believe that we have single-digit construction volume penetration across just the markets we're in today. It is really amazing when you think about it like that. We also continue to see a lot of growth potential in cross-selling additional products to our existing customers. Our newer products outside of project management, quality and safety continue to be well-received by our customers.

Nothing's more important than managing time and money in construction, and I'm continually hearing that our approach to financials is revolutionizing how construction is done for all stakeholders. Currently, 59% of our customers use financial management and more than 75% of our 1,100 six-figure customers have adopted at least one product within this category. We expect to see this adoption increase even further, as the impact of shortages and delays will likely lead more customers prioritize risk mitigation and seek better control over their project financials.

Second, the power of our connected platform continues to be one of our differentiators. As Founder and CEO, my focus is always first and foremost on our mission to connect everyone in the industry: our customers, stakeholders and collaborators on a global platform. So I spend a lot of my time with our product team to ensure we're continuing to lay the foundation to truly connect all people, systems and data in one place.

The surface area of all our products is very large, but the real power comes from the interconnectivity of our platform. This interconnectivity not only helps our customers run better projects and businesses, it enables us to develop new ways to connect and serve the industry. For example, last quarter we announced that we're building Procore Construction Network. This network would not only give the industry new ways to find more reliable partners, but it'll give us the ability to better convert collaborators into customers and expand and accelerate our existing flywheel.

Many of the products on our platform are interconnected, allowing our customers to seamlessly move from each phase of the construction process in one place. So typically by making an enhancement to one product, we by extension are enhancing adjacent products. For example, our customers use our bidding product to solicit and award bids during pre-construction. The accepted bids are automatically converted into contracts within our

financial product, which are then subsequently converted into the budget against which actual performance can be compared. The more products a customer uses, the more automation and synergies they benefit from.

Third, we are laying the groundwork for longer-term strategic initiatives and beginning to build out our future fintech solution. A single global cloud-based platform generates a massive amount of data that we can harness to help our customers run better businesses. It's important for investors to remember that many folks involved in construction manage highly complex, high risk businesses with low margins and challenging cash flow dynamics. That's what Procore is committed to building the right fintech solutions to help our customers manage risk and accelerate growth and ultimately run better businesses.

Back in September we announced our intent to acquire level set and shared the strategic value it'd bring to our long-term initiatives. Since closing the acquisition in November, our teams have begun to not only formulate our plans, but also to operate against it. I look forward to updating you later this year on our progress. I do want to stress that this journey is going to take years and will require investment, experimentation, and thoughtful execution. As a major shareholder, I am committed to getting this right, and I am confident that this will benefit both the industry and my fellow long-term shareholders.

Finally, none of this would be possible without the continual investment in our people and culture. A big focus of mine in 2022 and beyond will be to continue developing world-class leaders, engaging our people, and scaling our organization alongside our business, especially as we continue to grow. Our healthy culture is felt by our customers every single day, and it's one of the reasons why we can provide them with unparalleled partnership and service because we never stop working to ensure everyone at Procore is aligned with the needs of our customers.

So there you have it. I founded Procore 20 years ago to digitally transform the industry that I love. I am so proud of what we have accomplished to-date, but we're really just getting started in our journey of building an even broader platform to serve an evolving industry. What really gets me excited is the opportunity to deliver an elegant combination of software and fintech solutions that'll ultimately address the industry's biggest priorities of managing risk and accelerating growth.

This industry is so special. The people that are quite literally building the world around us deserve a best-in-class solution to perform their life's best work.

With that, I'll hand it over to Paul.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Thanks, Tooeey, and thank you to everyone for joining us today. As Tooeey described, Q4 was a very strong close to an important year for Procore. I'm incredibly proud of our performance in 2021 and I'd like to share some specific highlights as I reflect on our fourth quarter and full year.

Revenue in Q4 was \$146 million, up 33% year-over-year and up 30% organically when excluding Levelset \$4 million contribution. Non-GAAP operating margin was negative 13% in Q4 and this includes approximately 130 basis points of headwind from Levelset.

As we shared during our Q3 earnings call, our organic operating margin declined meaningfully from Q3 to Q4 due to an acceleration of attractive growth investments. I'll share more on how investors should view our investment levels and run rate expenses in a moment.

Turning to the balance sheet metrics, short-term deferred revenue in Q4 was \$302 million, up 41% year-over-year. Total RPO in Q4 was \$603 million with short-term RPO representing approximately 70% of that and growing 35% year-over-year. In addition to strong new business and renewal performance, our backlog metrics benefited from better invoice duration mix as well as earlier renewal timing and invoicing. This dynamic contributed to why short-term DR is growing faster than short-term RPO.

It's worth noting that Levelset's revenue contribution came in higher than our guidance, primarily driven by our early adoption of the new purchase accounting standard issued by the FASB late last year. This new standard allows acquirers to essentially forego the deferred revenue write-down that was originally factored into our guidance. We no longer expect any deferred revenue write-down from Levelset or future acquisitions given our early adoption of this new standard.

Taking a step back, our strong Q4 results are a reflection of several positive trends we saw in the year. You heard Tooey describe 2021 as a transition year for the industry and the business. Therefore, it's important not to look at 2021 in a vacuum but rather as part of a broader multiyear backdrop. I'd like to share some color on what this multi-year backdrop looks like for us by going back to 2020.

During 2020, the construction industry and our business faced unprecedented challenges though we chose to continue investing in R&D. Due to the pandemic, sales and marketing growth decelerated meaningfully. Our strategy was to remain resilient through the pandemic's toughest periods on construction while widening our products advantage. This led to our 2020 P&L showing substantial year-over-year margin improvement approximately 20 percentage points, and durable revenue growth stemming from our excellent 2019 performance.

Entering 2021, we anticipated that the industry's recovery would begin and wanted to best position ourselves to capitalize on that. Across the organization, we identified numerous attractive opportunities to pull forward 2022 hiring into 2021. We continued investing in R&D while reaccelerating sales and marketing investments. We ended the year with over 2,800 employees, of which over 1,200 are within sales and marketing and grew head count within this part of the organization by 47% year-over-year. These investments ultimately translated to accelerated revenue growth throughout 2021 and tangible benefits to our business.

Here are a few notable highlights. First, this is a very strong year for our financial management offerings. This product category is our second biggest after project management and it's one of our fastest growers. Second, we continue to see the strength of our broader platform strategy with 71% of total ARR generated from customers using four or more products, and 37% generated from customers using six or more products. This is up 300 basis points and 500 basis points, respectively, from 2020 and is a testament to the value customers are obtaining from the platform as a whole. Third, our growth benefited from continued improvement and renewal dynamics and improved churn, which is notable given the increasing renewal book and total book of business. Finally, our international business continued to strengthen as we entered into the UAE and Singapore and began preparations for France and Germany's launch later this year.

In Q4, international revenue grew 56% year-over-year and now comprises 15% of total revenue, up 200 basis points year-over-year. As we enter 2022, we are expecting another year of investment in the business, which will lead to a second year of declining operating margins and make 2022 look outsized from a spend perspective. However, these investments are providing returns in both the near and long-term, helping to drive durable outer year growth and fuel longer-term fintech solutions while also enabling us to deliver operating margin expansion beginning in 2023.

With that backdrop, here's our guidance for full year and Q1 2022, for the full fiscal year 2022 we expect revenue of between \$661 million and \$666 million, including a contribution of \$25 million from Levelset and representing total year-over-year growth between 28% and 29%. Non-GAAP operating margin for the year is expected to be between negative 15% and negative 16% and includes a margin headwind of 400 basis points from Levelset. For the first quarter of 2022, we expect revenue between \$149 million and \$151 million, representing year-over-year growth between 31% and 33%. Q1 non-GAAP operating margin is expected to be between negative 15% and negative 16%.

Finally, regarding free cash flow margin, investors can expect a year-over-year trend line that is similar to that of our operating margin outlook. In summary, we delivered very strong results to end the year. We're more bullish than ever on the long-term opportunity in front of us. As we enter 2022, we believe we are making the right investments to fuel continued growth and build towards our longer-term vision.

I'd like to close out by again thanking our customers, the construction industry, our partners, employees, shareholders, as well as the communities we serve for giving us this opportunity.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Brent Thill with Jefferies. Please proceed.

Luv Sodha

Analyst, Jefferies LLC

Hi. This is Luv Sodha on for Brent Thill. Thank you for taking my question. Tooe, maybe first one for you. I wanted to ask about, you mentioned the construction demand environment and playing offense in 2022. Could you talk a little bit about the dynamics impacting the industry from inflation to labor tightness and how that will impact your outlook in 2022?

Craig F. Courtemanche

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

Absolutely, Luv, so, yeah, no, I'm glad you asked that question because that is probably the number one question that people ask me. So the way we look at it is pretty simple. First, we look at the fact that the industry is facing some significant headwinds like I just said a few minutes ago. And that is around the cost of commodities, the challenge with getting actually materials and equipment to job sites with all the supply chain challenges, as well as inflation, all of those things are creating a headwind for the industry.

Before I move into the tailwinds, I do want to assure you that I talked to our customers every day and they all remain very optimistic about the future. But beyond that, we also see that we have these tailwinds, and the way I look at it is there's like a from today's vantage point, there's really a net neutral impact on Procore. The tailwinds are real. These are the overall digital transformation and these new ideas around people working remote now having to use a platform like Procore and the fact that the older generation is leaving the industry faster than we had anticipated. So those are all tailwinds that ultimately net out to be against the headwinds to be very net neutral and how we look at the world.

The reason I remain so highly optimistic is that the these tailwinds that I keep talking about, they are not going away. They are going to be with us for the long haul. The fact that digital transformation is only going to accelerate across this \$14 trillion opportunity over time and we look at the headwinds, we really do think that those headwinds will work themselves out to some degree or another over time. So, over the long run I remain very optimistic about the opportunity ahead of us but don't want to discount the challenges that we face today.

Luv Sodha

Analyst, Jefferies LLC

Got it. And maybe a quick one for Paul if I could. Yeah. Thank you for disclosing those additional metrics in terms of the number of customers using four-plus and six-plus products. Could you maybe tell us how to think about you know the contribution to growth from like new customers or versus sort of existing customers and your expectations for the future?

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Yeah, look, I think we continue to believe that there is a massive opportunity within our existing installed base and that's a reflection of what you heard us talk about in the earnings script around continue to see the platform pay off and continue to see further penetration with our customers. At the same time, Tooey talked a lot about where we are within just the overall market opportunity and in his comment to single-digit penetration. And so today we continue to see our revenue being driven by a healthy combination of both of those. And when we forecast out in the future we don't foresee that changing. We have tremendous opportunity that still remains within our installed base and our new logo and we're pretty focused on going after both.

Luv Sodha

Analyst, Jefferies LLC

Got it. Perfect. Thank you.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Thanks, Luv.

Operator: Thank you. The next question comes from Brent Bracelin with Piper Sandler. Please proceed.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Thank you for taking the question and good afternoon. Tooey, we'll start with you. Impressive here to see the highest number of new customer adds I think in two years, also putting up the highest billings growth in two years. How much of this acceleration would you attribute to improving conditions after this really challenging 2020 versus more company-specific share gains and these digitization tailwinds really kicking in?

Craig F. Courtemanche

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

Well, Brent, great to hear your voice. It's hard to pass them apart, frankly. I will say that we when we look at what's happened over the last, say, three years, we do realize that we are returning to a state of normalcy. So things are reverting back to how they were pre-COVID in a lot of ways. However, we are facing, like I mentioned

these headwinds that might not have been there before, but yes, there the digital transformation acceleration is something that we're seeing and we're seeing it in lots of places.

Like, for instance, I'm really proud of our performance with our international book of business and the fact that it grew 56% last year. We are able to see the global market opportunity as being so much bigger than the US market, and we're actually seeing the performance there. So, lots of bright spots – we're also seeing a lot of bright spots around adoption of our financial products. They continue to sell very, very well across the board to all of our stakeholders.

So, I wish I could tease it apart. But it's hard to say I would. I think it's a combination of both. But over time, I think these tailwinds are going to pay off, and I think our ability to execute just gets better and better over time with this opportunity. So, I'm bullish on both fronts.

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

Q

Got it. And then a quick follow-up for Paul on the short-term RPO; particularly strong this quarter, I think north of \$6 million sequential add. Short-term RPO accelerated 36%. Could you just maybe compare contrast the backlog of the business as it stands today and your visibility into this year versus maybe where you were a year ago? Any thoughts on just the durability and visibility you have in the growth would be helpful here.

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

A

Yeah. Look, I think the call out short-term RPO is the right one. As we talked to investors, that is the metric we would point you to as the closest proxy for how to think about our growth go forward. I would call out, we shared that short-term RPO is up 35% year-over-year. If you back out the impact of M&A, that would actually get close to the 33%. And ultimately, as we think through our guide in the short-term RPO, I think those are good numbers to try and get it against when you think about kind of growth go forward. And as I hope you've taken from our earnings call so far, we're very bullish about the opportunity ahead.

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

Q

Great. Great to hear, and thanks for the color. Thank you.

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

A

Thanks. Thanks, Brent.

Operator: Thank you, Brent. The next question comes from DJ Hynes with Canaccord. Please proceed.

David Hynes*Analyst, Canaccord Genuity LLC*

Q

Hey, guys. Congrats on the strong results. Tooey, I really appreciate the market penetration color, especially in the enterprise GC market. I get that question a lot. My follow-up there would be, if you guys have 25% of construction spend in that most penetrated market, the other 75%, how much is owned by competitors versus being true white space, right? And if this end of the market is more replacement, like what's typically the catalyst that needs to happen for a prospect to swap out an incumbent?

Craig F. Courtemanche

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

A

Yeah. So when we focus in on the – I appreciate you calling that out because we really did want to create an example of how big this opportunity is for the US enterprise GC market. So when we look at that particular segment, the customers that we are going after in that market tend to be on legacy solutions that they have yet to replace. And they tend to have been old school ERP client server-type applications that have some bolt-on project management tools, for instance, and they just haven't made the leap yet to come over.

But actually in a lot of cases we actually will have a percentage of that customer's business already, be it an owner's mandate that we're working with an owner that wants them to use Procore or they may be running us on a division within their company. So, we then generally are displacing some legacy solution. And the way we look at it in general is, there's so much opportunity ahead of us because of this like I said with only 25% penetration.

This is our most digitized market that we actually serve which leads us to be very, very optimistic about the global opportunity as the rest of the global construction market actually starts becoming more and more digitized. So, yeah, lots of opportunity and I do want to assure you because people ask this question too which is, this is not a product market fit challenge. Our product works great across the enterprise. It's a time to adoption challenge which is, the longer our products have been in-market, the longer we've been working with customers, the more they're going to adopt. So it's green space for us to capture from now and into the mid and the longer term.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah, yeah, that's great to hear. And then a follow-up for Paul. So, 47% head count growth in sales and marketing in 2021. I don't know if these numbers are in the filing. But if we looked at sales and marketing head count growth over a two-year period, what would that kind of look like? And then the follow-up would be like what's contemplated in the margin guide in terms of sales and marketing head count growth in 2022?

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

A

Yeah. I think that the thing I'll actually point you to and that's important to take away is, if you look at that 47% number, it is reflective of the Levelset acquisition as well. And so, if you want to think about sales and marketing on an organic perspective, it's closer to the low=30s.

In general, as we talked about 2020, was really the biggest slowdown for us in sales and marketing growth. I don't have the numbers off top end for 2021 to 2022, but I would tell you that we expect that those numbers will normalize and start to align closer and closer with revenue growth as we get through this catch-up period of kind of that three-year window I talked about.

David Hynes

Analyst, Canaccord Genuity LLC

Q

Yeah, yeah. Okay. Makes sense. Thanks, guys.

Craig F. Courtemanche

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

A

Thanks, DJ.

Operator: Thank you, DJ. The next question comes from Kash Rangan with Goldman Sachs. Please proceed.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you very much. Congratulations on a very nice end to the year. Tooeey, was encouraged to hear some of the commentary that you've provided. One was the net new customer growth was pretty significantly stronger than this quarter than what we'd expected. I'm curious if we could parse out how much of that is because of a – I know that there are headwinds which you acknowledge which we appreciate. How much of that is real improvement in the fundamentals of business versus maybe customers that came through the acquisition?

Also secondly, very intrigued by commentary on fintech. I don't think you formally talked about this particular product line. Can you just take a step back for us and explain what is the big problem that construction industry faces a payments perspective? And what is the uniqueness of what Procore can do and what kind of impact they're having on your financials? Maybe that could be handled by Paul. Thank you so much.

Craig F. Courtemanche

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

A

Yeah, Kash, great to hear your voice. Well, let me just clear the air on the first question off the bat. We are not getting any contribution from M&A on that front. So this is, you know, the success that we're seeing is all is based on the fundamentals of the business that you know so well. But you know that I will love to talk to you about these fintech businesses because this is an area where I'm really passionate.

Let me just start by saying Procore is celebrating our 20-year anniversary, so I'm going to shamelessly plug our 20-year anniversary because I think it's really it's a fun one for Procore. We've been providing solutions to this industry for those two decades. And if you think about what we do for the industry, we're really helping our customers manage risk, right? So project management is really risk management.

And so we've been doing this for a long time. We realized over the years that not only are we providing all this risk management solutions to the industry, but because we're a platform, we're able to capture all of this data, and trust me, a tremendous amount of data around project risk. And so we realize that we can reflect that data back into insights to our customers today to allow them to run better businesses. But we also realize that there's other services that the industry needs in order to be successful.

So we now are getting really good at understanding where risk lies in construction. So the way we're looking at 2022 is that we're building the foundation for these fintech businesses around creating risk profiles that allow us to better identify how we can do things around, let's say, material financing, which is one of the areas where we're interested in looking and we're pursuing.

How do we know who a good material finance customer could be? Well, we know where risk lies and so we can put together these risk profiles. And then on the insurance side, all of this is related to risk. So we can put together risk profiles on folks that could allow them to purchase insurance for less money than they're paying today because we can help them by knowing where risk lies.

So all of the things that we're working on now are building this foundation. And then over the long run, which is going to take some time as we experiment through 2022 and beyond, we'll be able to deliver on these new fintech businesses but it is a multiyear journey. But I'll tell you what's really exciting about it to me, Kash, is I'm seeing fingers on keyboards every day delivering on this and it's really, really exciting. And I know you asked about payments, I believe, didn't you as one of the fintechs? Maybe not, but it's just the other...

Kash Rangan*Analyst, Goldman Sachs & Co. LLC*

Yes, yes, I did.

Q

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

...it's the other one I didn't – yeah, you did. So it's just the third area where we are really encouraged. As you know, we acquired Levelset. We made the announcement in September. We actually closed in November. And a lot of the things that they're working on are helping us on the compliance side of financial management, which actually gets us closer to being able to deliver on payments. And on that front alone, we are also making headway. Again it's a multiyear journey, but we're actually seeing some progress on our end, and we'll talk more about it as we have things to share, but it's all very, very exciting.

A

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

Yeah. And maybe just to round out on the couple of other points specific to myself. To reinforce the customer count piece, Kash, as Tooey had said, there's no M&A inclusive in that. And if anything, frankly, the headwinds that we had talked about on the macro front still do persist largely for the SMB. So it's important to note, as we have talked about in the last quarter, that customer count actually still faces some degree of a headwind, largely in the SMB, and it's why you see such a big disparity in the growth rates between our total customer count and the 100,000-plus customer.

A

On the margin impact associated with some of the fintech investments that Tooey just spoke about, I'd point you to where we talk about the headwind associated with the Levelset acquisition. We talked about how it's 400 basis points of headwind to our overall guidance. That is an area where we are looking at that acquisition as an acceleration of these investments, and a big part of that dollars that we're spending with the Levelset team is going deeper on this data foundation and on starting to experiment and really invest in these fintech solutions. And so that's a place I would point you to to think about the margin impact.

Kash Rangan*Analyst, Goldman Sachs & Co. LLC*

Got it. So, Paul, these investments in calendar 2022, should we expect a positive outcome in calendar 2023, because conservatively, rightly, so you're pointing – you're guiding to slower revenue growth in calendar 2022 versus 2021. But should we expect that to reverse course as a result of what could be a positive effect on your investments? That's it for me. Thank you so much, and happy 20th anniversary.

Q

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

Hey, thanks, Kash. We think across the spectrum of the investments we are making across international product, these various areas, that we're going to be able to sustain durable growth in the outer years. I would not tell you or anyone on this call to model in direct revenue impacts associated with these fintech investments any time in the foreseeable future.

A

Operator: Thank you, Kash. The next question comes from Brian Schwartz with Oppenheimer. Please proceed.

Brian Schwartz

Analyst, Oppenheimer & Co., Inc.

Q

Oh, yeah, hi. And I'll add my congratulations to a real nice finish to the business for the year, and thank you for taking my questions. Tooey, I wanted to circle back, you mentioned in your opening commentary, you talked about the structural changes that the pandemic has unleashed on the end market. Specifically, you talked about the new hybrid work model and the technology demands of the younger workers in the labor force.

The question I wanted to ask you, maybe in your conversations, or you look at the pipeline, just specifically for these structural changes, how much of this new investment cycle has taken place, or maybe added, saying it another way, how much of this new investment cycle do you think is still out there in the end market?

Craig F. Courtemanche

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

A

That's a tough one. So, yeah, I don't know. Maybe, Paul, do you have any...

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

A

Well, can you elaborate what you mean with investments in this cycle? I'm not sure I follow exactly what you mean there, Brian.

Brian Schwartz

Analyst, Oppenheimer & Co., Inc.

Q

Yeah, maybe more directly, I think there's a big debate around pull-forward to demand. And from the structural changes that got unleashed from the pandemic, now we're in the third year of the pandemic. So, just trying to see how much of that end market has already made these investments versus how much is still left out there to go. Thanks.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

A

Got it. Appreciate the clarity there, Brian. Yeah, I think we are actually one of those industries that had the opposite effects. We did not benefit from pull-forward as we think through the structural dynamics that Tooey was referencing earlier. We see those as long-term tailwinds, things like digitization picking up in this industry. Tooey pointed here, we're still single percent penetrated here. This market has a ton of runway. And really, what COVID has done is more brought to light the need to digitize for these stakeholders, who otherwise might have sat on the sidelines longer. We do not believe it has resulted in a pull-forward in any sense.

Brian Schwartz

Analyst, Oppenheimer & Co., Inc.

Q

Thanks, Paul, for that color. And then the one follow-up, I actually had it for you, unless Tooey wants to take it. You did mention qualitatively that you saw improvements in the net revenue retention number. And I was just wondering if you could just provide any clarity or any color on how much of that is coming from increasing spend from the existing customers versus those customers adding the new products that you've disclosed. Thanks.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

A

Yeah, it's a combination of both. It's why we went ahead and wanted to speak to the kind of additional growth we've seen in the four and six customer penetration. It's hard for us to stuff it out specifically as these deals in many cases customers will come in and they'll expand volume while also buying additional products. At the same time, we look at really that adoption of the products and overall are very pleased with the ability to further penetrate into the platform, and think there's a lot more runway in that we'll continue to see construction volume being a driver of expansion, but at the same time, we will continue to see our further and further push into expanding wallet share also help contribute to that growth.

Brian Schwartz*Analyst, Oppenheimer & Co., Inc.*

Great. Thanks for taking my questions and congrats on a real nice finish to the year.

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

Thanks, Brian.

Operator: Thank you, Brian. The next question comes from Adam Borg with Stifel. Please proceed.

Austin Gewecke*Analyst, Stifel, Nicolaus & Co., Inc.*

Hi. This is Austin Gewecke on for Adam Borg. Thank you for taking the question. Maybe for Tooe, Procore has historically been on the market via a direct footprint, and just given the start of the year, I was curious, like how are you thinking about the opportunity for building out the channel, especially as you look to increase your international presence in coming years?

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

Yeah, absolutely. So, by the way, I appreciate the question, Austin. The – when we look at any international expansion, our go-to-market strategy, we will look very closely what the buying patterns are of how the prospects there want to buy software. And so we're very attuned to the fact that some markets are very channel-heavy and some markets are – expect more direct sales.

So, it really depends on which market you're talking about as to how we're going to look at it. But ultimately, what ends up happening is we will generally have a direct sales force that's augmented by channel partners. And so it's a big part of our international go-to-market. But, yeah, so it's really market-dependent, frankly.

Austin Gewecke*Analyst, Stifel, Nicolaus & Co., Inc.*

Great. That's it for me. Thank you.

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

Thank you, Austin.

Operator: Thank you. The next question comes from Saket Kalia with Barclays. Please proceed.

Saket Kalia*Analyst, Barclays Capital, Inc.*

Okay, great. Hey, Tooeey. Hey, Paul, thanks for taking my questions here.

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

Hi, Saket.

Saket Kalia*Analyst, Barclays Capital, Inc.*

Hey, Tooeey, maybe to start with you. I think it was mentioned earlier, but it feels like Procore financials has been doing really well lately. And so, I was wondering if you could just talk a little bit about what sort of adoption you have within the customer base for financials specifically, and who you're displacing – or who or what you're displacing there when you make that sale?

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

So, thank you for – yes, we've been very bullish on our financial products, because they have been doing very well and they've been very well-received. So we're very fortunate that our financial products are needed by owners, general contractors, and specialty contractors. And we'd like to think of our financial product lines as being somewhat of an industry-defining solution.

Prior to Procore, you would do a lot of your financial management in Excel as a project manager, and then you would VPN into your ERP system and try to make sure that the invoices that you're keeping track of, from the jobsite trailer making it into the ERP, is very complicated, and it was very prone to have mistakes entered into the systems. And so, ultimately what we wanted to do was, we wanted to bring what Procore is so good at is bringing the concept of collaboration workflow and ease of use to the tools that the folks in the jobsite needed in order to get all of the financials under control, and then connect to the back-office ERP solutions through ERP connectors.

And we've been – and this has resonated very well again with all segments of the market, all stakeholders. In general, it just acknowledges the fact that construction management is done in the jobsite trailer, and financial management for the corporate is done in the corporate office, and we bridge that gap really, really nicely, and it's been very well-received.

Saket Kalia*Analyst, Barclays Capital, Inc.*

Got it. Got it. That makes a lot of sense. Paul, maybe for you. France and Germany, I imagine, are really interesting markets. I guess, if you were to sort of look at the equation for the market opportunity there, in terms of construction volume and whatever you want to call, sort of take rate or pricing, how do you sort of think about that calculus and sort of sizing those TAMs either collectively or individually?

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

Yeah, appreciate the question. I think that when we think about our international opportunity, it is important to note that construction is a little different than other markets. We really do have to look at a number of factors, from GDP, population growth. When we think about the impacts that a market will have when we expand into it, I think

it's no surprise that France and Germany are among, if not, really the largest markets we see in Continental Europe today, and represent hundreds of billions of dollars of construction volume.

We think we're a great fit in those respective markets and have a pretty big, healthy opportunity to build a multi-hundred million dollar opportunity within just those regions. And so, while it's early days and while we do believe that international will be a big opportunity to continue to grow in, we think that France and Germany represent an awesome opportunity ahead and one that we think we can build really big businesses in.

Saket Kalia

Analyst, Barclays Capital, Inc.

Got it. Paul, if I could squeeze in a housekeeping question, if that's all right, and apologies I joined late, so I'm not sure if this was asked. But I know we talked about organic growth on revenue, and I think also on cRPO. Just to make sure the question is asked, did we see anything about how much acquisitions add to the deferred revenue balance?

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

We did it. It's about 2 points.

Saket Kalia

Analyst, Barclays Capital, Inc.

Very helpful. Thanks, guys.

Craig F. Courtemanche

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

Thank you.

Paul Lyandres

Chief Financial Officer, Procore Technologies, Inc.

Thanks, Saket.

Operator: Thank you, Saket. The next question comes from Jason Celino with KeyBanc. Please proceed.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks for fitting me in. Maybe Tooey, really interesting to hear your comments on the hybrid model for construction, but maybe for those of us who haven't necessarily set foot on a construction site, what are some of the roles that were maybe in the trailer that are now moving to hybrid, and maybe what solutions [indiscernible] (48:45)?

Craig F. Courtemanche

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

Yeah, and I'm glad you asked that, Jason, because, yeah, we were not super clear on that one. So, there are several jobs that were kind of historically done in the jobsite trailer that don't necessarily have to. And so, if you think about folks that do bidding on projects or pricing on projects, those folks can do that from pretty much anywhere. And so, those are the estimators for instance.

Also the VDC group which is the visual design group, which will be doing updates to models and/or updates to designs, don't necessarily have to be in the jobsite trailer every single day to get their job done. In fact, I've heard stories time and time again about how much more productive they are when they're able to work from home and kind of in isolation, and then come into the jobsite trailer a day or two a week.

And it's very similar, Jason, to what I think we all experience in the work world is, there are some folks that just are required to have kind of headspace and heads down space. And so, those are the folks that don't necessarily have to be there. Now, if you're pouring concrete, of course you're not going to do that from your living room. So you got to – there are certain jobs that actually have to be there every day, but then there are certain folks that don't.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

Q

Perfect. No, that's a good explanation. And then a quick follow-up on the sales hiring. Procore really didn't turn on the sales dial until Q2 last year. So my question is, how long does it typically take for a salesperson to contribute or reach full productivity?

Craig F. Courtemanche

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

A

Yeah. Unfortunately, as with many things, Jason, it's not a one size fits all answer. If you go back and think about our go-to-market approach, we have customers who pay us single-digit thousands of dollars, up to customers who pay us millions of dollars. And the emotions you would expect to see from a sales rep are pretty consistent with the size of the customer more than anything. And so, when you look at reps who are very much focused on the SMB, you're talking months. And when you start to talk about enterprise reps, it can be quarters, but nothing atypical in terms of our ramp time relative to other software companies.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, excellent. That's helpful. Thanks.

Craig F. Courtemanche

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

A

Thanks, Jason.

Operator: Thank you, Jason. That concludes today's Q&A session. I would like to pass the conference back to the management team for closing remarks.

Craig F. Courtemanche

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

Thank you, everyone. Talk to you soon.

Operator: That concludes the Procore Technologies, Inc. FY 2021 Q4 earnings call. Thank you for your participation. You may now disconnect your lines.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.