Company Name: Procore Technologies Inc (PCOR)
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<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

All right. I think we're ready to kick things off. I'm DJ Hynes. I run Canaccord's software equity research team. Thank you guys all for tuning in. This is the 41st year Canaccord has put this event on. We're super thankful the investors that tune in, super thankful to the companies that participate. We're fortunate to have Procore here, obviously a recent IPO. So I think public investors although probably familiar with the business are still coming up to speed on all the nuances. So this is a great forum to get the story out there and have these conversations. We have CFO, Paul Lyandres. We're going to do this as a fireside chat format. Please don't be bashful for those who are tuned in online, there's a Q&A bar in your webinar screen. Send me questions. I'll work them into the conversation and we'll try and keep this interactive. Paul, first, thanks for doing this. Thanks for being here.

<<Paul Lyandres, Chief Financial Officer>>

Thanks for having me.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

I want to start high level and just kind of set a foundation for any investors that might be hearing the story for the first time, and then we can build from there. So Procore is a relatively new public company. Just give us a quick history of the business, the problems you're solving and then what differentiates you in the space?

<<Paul Lyandres, Chief Financial Officer>>

Yes, absolutely. We're really excited about the opportunity to help digitize one of the oldest and least digitized industries in the world, that's the construction industry. We've tried a lot of ways over the years to make sure that we can articulate what it is we're out there to do and how we think about solving it. And we find the best way and the best place to start really is the vision and the mission. So we are a vision driven mission driven company. Our vision is to improve the lives of everyone in construction. The way we believe we will do that, is by connecting everyone in construction on a global platform. And I'm sure we will touch on it in this conversation, but connecting and global are big parts of that mission. We always used to joke internally of like, okay, but that still means when we talk to our mothers in laws, grandparents feel like, yeah, what do you do exactly?

And we've tried to simplify it in a way that is we build the software for the people who build the world. Now in the investment world, you can think of that much more of we're a vertical SaaS solution, focused on construction management. And that means we do everything from kind of that pre-construction phase. When you are figuring out the estimates, finding your contractors all the way through that course of construction and that's managing budgets and progress and documents and all of the complexities that are very unique to our industry. And we do that across subcontractors, general contractors owners, all the way until you hand the keys off to that asset owner, whether it's a hospital or a library or a skyscraper and we believe there's just so much opportunity in this massive industry and we're excited to have the chance to partner with them to get help bring it forward.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yes. Yes, I mean, it seems like you guys are really the furthest along in terms of delivering that end to end user experience. I mean, there is still obviously more that you can do, but I think that's certainly a differentiating aspect of the story. So look, you guys reported Q2 results last Thursday. It was your first quarter public, surprise, surprise. You beat our estimates. Maybe you could just give us a couple of the highlights from the quarter. Call out anything worth noting and then we can dig in on some of the fundamentals.

<<Paul Lyandres, Chief Financial Officer>>

Yes, well, we're certainly super excited to have made the transition to a public company. You know well that we've been working towards this goal for some time. And we were really pleased with the first earnings report and everything we were able to achieve in Q2 and the things we highlighted certainly sub-growth across kind of every stakeholder. So those owners, GCs, specialty contractors, we just talked about all of our 13 products, as well as all of the geographies we serve.

But in particular, we saw that our pricing model is unique. We will get into this I'm sure, but we charge on construction volume. And so seeing the sentiment of the industry starts to come back, talking to our customers, backlogs are improving, sentiment is really positive. And this for us is not necessarily that something we find to be surprising because when we thought about the impact of COVID or some of the delays that COVID may have caused a year ago, the question to us wasn't whether or not these schools, hospitals, bridges still had to get built.

It was just a function of when they would get built. And so we are seeing that demand return and that demand has to return. Populations will grow. Populations will move. We're seeing this in the infrastructure bill. Things age and they need to get renovated or rebuilt. And so that was one big theme that we really hit on in our first earnings call. International was another one we highlighted. That was an area that we deliberately didn't start focusing on until about 2018. So it was certainly labor in our journey then maybe some of our kind of SaaS peers. But we are very deliberate in our focus. And so as we've applied that focus to international, we've seen really good success there, and we're really pleased with how that was progressing.

I think the third thing that we called out was just, hey, a big part of being a vertical solution is being able to continue to solve more and more problems for your customers. And so, one of the areas we've been investing in for a long time and we think is a really meaningful kind of a pain point for the industry that we're helping to address is financial management and how that whole process works. And so called out that we've continued to see good success there and had some really key wins in terms of development, but also in just the partnerships and the relationships and the ability to drive that product further into our customer base.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yes. Yes, so, I heard about three different things we can dig on, right, like unique business model, international and then platform expansion opportunities, right. So maybe – let's start with the pricing model. It's unique in the space. It tightly aligns with your customers. I think it creates network effects. Just tell us about the pricing model. Why it's so unique and how it differentiates you guys in the space?

<<Paul Lyandres, Chief Financial Officer>>

Yes, But if we go back to the mission, right, connect everyone in construction on a global platform. What's important to understand about our pricing model is we're not consumption-based, we're not project-based, we're not user-based and it's because of those dynamics start to constrain this ability to connect everyone. So we price our business on the same metric that our customers think about their profits and their insurance and that's construction volume. And what that enables us to do is have an unlimited user model, which means at no point in the journey, when you're trying to complete a project, do you have the paying customer trying to think through this dynamic of like, well, shoot, this contractor is only on the project for a small window of time. Do I really want to go through the hassle of giving them a license, taking away, paying for it? Is it worth it?

And often what's last in that conversation is if you break that workflow, if you lose that data, do you actually get back to the challenges our industry are facing, right? There is hundreds of billions of dollars of waste. This lack of productivity growth, the inability to have historically leverage data like so many other industries to get better, smarter, faster. And so in order for us to really achieve our mission to what we believe is help to drive this industry forward. We felt that it's critical that those questions are never being asked and that everyone is participating in a project.

Now to your point, it has other benefits. It enables us to bring in what we call collaborators, who are not paying users, but are part of completing those workflows, providing data, right? We have 1.6 million plus users. 60% of those folks don't pay us, but they are folks who have to be on the project. They're folks that we believe we can continue to drive value by actually converting them, paying customers and solving a lot of their problems, but we can also use the data they provide to help make the customer smarter, more efficient automate processes and at all of this we don't believe would be possible if we constrain folks to a seat.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yes. One of the things that came up when I was talking to investors during the roadshow that maybe wasn't as intuitive or well understood is that they hear unlimited pricing model. And then that – that later in the conversation, I would say and Procore is early and monetizing kind of all the different stakeholders in the value chain, right. Like the GCs, typically the buyer, but they're also selling to owners and subs and the question would always be, well, if it's unlimited users, like why would the subs ever pay for it? Can you just talk about like how that works and how you are kind of early and monetizing all the different stakeholders?

<<Paul Lyandres, Chief Financial Officer>>

Yes, definitely appreciate the question and it is certainly something we've heard before and it is a subtle nuance, but it's a big nuance, which is when you're a collaborator on a project. What we are doing is enabling you to complete the workflow for the customer, who is paying for the piece of software and make sure that we don't slow down the schedule. We have complete visibility in budgets.

We have everybody who is on the job has the right information, but as a collaborator, you're there to complete someone else's process. And once that process is done, you're no longer a part of that dataset or that project in the same way. And you also are constrained by what you can do to operate your own business. And so while all of these stakeholders have dependencies on one another, a subcontractor is going to be working for many different GCs.

They need to manage their own documents. They have their own budget. Their budget is not the same as someone else's budget. They have their own markups, their own photos. And by the way, when all is said and done, they want to know how they perform so that they can get more efficient and better. And by being collaborative, you don't get those things. You don't own your data. You don't have visibility into what's working, not. You can't manage your own components of the project. So, there is tremendous value to the ecosystem and to the actual project to have unlimited users, but there's real compelling reasons why you want to be your own customer.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yes. Yes, makes perfect sense. Let's talk about the competitive landscape. The way we see the market, there's really kind of four scaled vendors in this space, right. It's you guys, obviously, and then Oracle and Trimble, which I would argue we're probably losing share in this space and then Autodesk, which is talking a lot about their efforts in construction. So maybe just to start like how much of selling is greenfield today? How much is competitive? How often are you seeing replacements?

<<Paul Lyandres, Chief Financial Officer>>

Yes. So it's a great question. And I find that it's actually something that is worth kind of taking a bit of a step back on in the sense that when you ask how much of this is greenfield. We look at the market today and it's 50%, right. The amount of the market that is Greenfield is massive. And that tends to lead to this question of how is that possible? It's such a big industry. It's such an old industry. It's so complicated. And I think in a lot of ways, we as kind of investors, we have folks that are used to this dynamic of SaaS. It's been there for a really long time, but when we take the step back on our end, construction is unique. In order for construction to happen, you have to go in the field. You have to coordinate across multiple different business entities.

We're talking dozens of different businesses in order to achieve a project. And if you think about the timing of when mobile made it into everyone's hands, when LTE became prevalent, when Wi-Fi really started to make it to the job site, we're talking about 2008, 2010, 2012, the ability to solve this problem is a decade old. And so, we are still working through a huge kind of opportunity of just getting the right people to the right place on time with the right information to avoid, as I had said earlier, hundreds of billions of dollars of rework and waste to try to drive construction, to map to – if you believe the McKinsey study out there that says, hey, if construction had just kept pace with the average of the other major industries in terms of product – labor productivity growth, we'd have $1.5 trillion to the global economy.

And so the reason that I start there to say, this is a massive opportunity, and we do believe that there is room for multiple winners. We believe that when we look at those names in Oracle, Trimble, Autodesk, they actually all have unique solutions that are around for some time and in a lot of ways by nature of how they've built their businesses, they've acquired a lot. And so we find that we actually partner, integrate with many of the different solutions that live within those large players. And that when we're talking about competition displacements, we do find we are still in this world of analog to digital, maybe some of these on-premise 1.0 to 2.0, and some of those on-premise solutions live within those big three. And so, I don't know if I would call those the same competitive displacement by name…

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yes.

<<Paul Lyandres, Chief Financial Officer>>

But we also look and say that there's a lot of folks out there who still live entirely on their ERP. We have 300 plus partners in our ecosystem. And you could think of those as competitors, but I think when we look at peer sets, Salesforce has always one that that we point to, we think that robust ecosystem only makes us stronger and actually lets us be more valuable to the customer. And so, we take the step back and we think that our competitive environment is so much more in making sure we continue to innovate and drive value. Now, we see – we are always very mindful of those names and very respectful of the fact that they didn't get to where they are by not being great businesses. But we focus a lot more and the value we can add and believe we are in a great position for all the reasons we've talked about to continue to capture market share, and to build a really big business.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. Can we just double-click maybe on Autodesk for a moment? Like, I feel like that's where I was getting the most questions. I feel like they're the ones talking about construction the most in a public forum, just maybe hone in on like where you see the key differences you versus Autodesk and why you're positioned to win?

<<Paul Lyandres, Chief Financial Officer>>

Yeah. Well, so I'll start by again, I think they have a tremendous business ton of respect and believe that there's an opportunity to build multiple inertia. And when you looked to Autodesk specifically, they've got their roots and design that is a buyer that is largely the architect and somewhere that is kind of earlier in the process, we have grown up and built our life in the course of construction phase, where we believe that collaboration, that dynamic of an interconnected platform is mission critical.

We also believe that having a single platform where everything comes together, where you truly can be a system of record is something that is harder to do when you go out via kind of more aggressive acquisition strategy and something that we think our customers do look to us as a big differentiator. But I'd also say that in one of the things that we pride ourselves on is being a partner to the industry.

And we have said time and time that we believe we have the best technology, but we don't believe the best technology is all it's going to take to win. And the way we support our customers with unlimited support for all of those collaborators, the way we lean in with things like Procore and partnering in all these different directions are one of the areas that we think really gives us the ability to be that partner and to have our customers bring us with them to solve their challenges and to help really improve this industry because that's what we're here for.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. You alluded to the app marketplace being a good partner, 300 plus third-party apps. I think the stat you've shared is that over 80% of your customers use at least one of those apps; just talk about like how important is that to your customers and your positioning in the industry. And that probably dovetails into a conversation around M&A philosophy, right? I know the best scenario where you've spent a lot of time and continue to spend a lot of time, just what's the build versus buy? And how does the app marketplace tie into that?

<<Paul Lyandres, Chief Financial Officer>>

Yeah. Also, look, if I took the step back to answer the first question, everything does tie back to the mission, right? Connecting everyone means you have to help these different stakeholders solve a multitude of problems. And when folks talk to us about TAM or growth levers, answers are pretty consistent like there are more challenges out there than I think we'll ever be able to solve. And there are so many different ways to solve those problems. That when we think about the partnerships, the ecosystem, we look back to say, this is one different area where we enable our customers to get success faster, right?

We make these to be very strong integrations that are tightly coupled that really make it feel to the customer as if they have a seamless journey and are able to be more flexible and how they address the problems? How nuanced certain different parts of the industry can go about making sure that? They still have a system of record, but they're also able to use best-in-breed solutions like a DocuSign or more vertical, specific ones that may be really niche to a specific problem set, but important to that customer.

And so I do not believe that you will be able to build a global connected platform with everyone coming together. If you do not have a robust ecosystem, robust API, and that you look at that much more through the lens of helping the customer, then monetizing APIs. And so for us, that has always been the focus and we tried very hard to be the best partner. Any of these folks have ever had which leads well into M&A, in the sense that, again for us it's always that step of saying, okay, multitude of problems in the industry. What is the best way to get there, right?

You can obviously buy, you can build and you can partner and depending on what our customers need, where the partners are in their journey, what we find is it's always a fluid conversation, rarely are we approaching M&A as the first conversation we've had with someone, we tend to get to know the engineers, the leaders, we spend time getting to know their culture and our culture and where it makes sense to really accelerate the opportunity to drive value in this industry, that's when we look to M&A as a tool to do that.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. Okay. So look huge opportunity. We've talked about that. I think what gets some investors excited about the Procore story is like, where are you could take it from here, right? And this is something that came up a couple of times on the earnings call just in terms of like expansion opportunities, right? And I think of it kind of two separate areas, like one is all the data that you have and all the stuff that you could do with data?

And the second is on the finance side, right. And payments is like the obvious one, right. And I think there's a progression to getting to the actual exchange of money and facilitating that transaction but I want to ask you about both of those separately and maybe just talk about kind of the vision and where you are in terms of executing against the opportunities there?

<<Paul Lyandres, Chief Financial Officer>>

Yeah. So it's a great question is one that we spend a lot of time talking about internally because it is a key part to improving the lives of doing construction is understanding where things like financing, working capital really, and risk make this world just incredibly more difficult for the people who set out to just build awesome buildings. And when you think about data, when you think about what that data enables, right? It enables you to automate processes, reduce double data entry, but it also you to make smarter decisions and pull some of that risk out such that you can share in that benefit with everyone. And that's where payments is a huge pain point. And I think folks don't quite who don't live and breathe in the construction industry, appreciate why it's unique in our world, right?

In order to get paid, you're going to get paid on a progress, right? You're not going to get everything at one; you are going to get based on what you completed at that point in time. You have to go out there and show here's the labor hours we put in. Here's the materials we spent. Here's the photos. Here's the inspections. Now let me roll all that up; let me make sure you see I'm ensured. Let me ensure I release any liability, and hey, there's 30 parties that have to do that across all the trades. Then the GCs go look at all that, make it work. Then he's got to roll it up to the owner. They're going to do that whole process again. And anytime something's off, it slows down the whole process, it slows down payments. When you slow down a payment for a subcontractor whose business is dependent on the working capital to do the next body of work, you introduce a ton of risks.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah.

<<Paul Lyandres, Chief Financial Officer>>

And so by streamlining or accelerating the payments piece, you reduce some of that working capital. You reduce some of that risk, but there's a lot of ways to look at that because there's a lot of different places in this kind of chain where that risk or that working capital slows this industry down. And so we certainly love to talk about payments, but payments, I think gets a lot more attention by nature of how many patterns there are in kind of our peers across horizontal SaaS that have went that direction. We think construction gives us this opportunity to actually look at a lot of different ways to solve that problem. All of which are interestingly massive market opportunities. And what we try to convey to investors is, hey, if you look at our model today, if you look at our path to continue to sustain growth for the foreseeable future, we don't need any of those things, right?

We have massive growth opportunities in our stakeholders, in our products, in our international markets, but we're going to do those things because those things are critical to the mission and the vision. And what's important is we don't write, we do them thoughtfully, we roll them out when it makes sense, and so we continue to tell investors. It's not in our model. It shouldn't be in your model. But do understand that it is a huge opportunity we believe it's something where uniquely positioned to help solve and it is something that we believe is important over the horizon.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. Yes. Super helpful answer there, and I think unpacking some of the nuances of the industry and helping folks say, well, hey, it's not like we snap our fingers and turn payments on that, that makes a ton of sense. I want to hit on COVID. Look, you guys don't have a long public operating history. I think it's important to understand kind of the trajectory of the business as the recovery plays out. Like – is there a way to quantify project delays and the decline in construction starts, like how it's impacted your business in the past, like how that creates backlog, that's kind of not going to go away and then like, what are you seeing now? I mean, you guys are – you are a global business and there's resurgence of the disease or the pandemic kind of around the world, like, what are you seeing today?

<<Paul Lyandres, Chief Financial Officer>>

Yeah. Look, it's we like to use this analogy that construction is more of an oil tanker than a speed boat. The reason we say that is when COVID hit, it certainly hurt the industry. Q2 of last year was one of the toughest times, at least, I think in two-year in my history of what this industry has faced, but the industry still did a lot of construction. They continue to move forward. As I had said, there are so many reasons why construction has to happen, construction as an overall global industry has to grow, and we believe that will continue to happen. And so just like COVID slowed down that oil tanker, as we see the recovery, we see its feeding back up, but it's an oil tanker. It will only change trajectory so quickly.

And what that really is to say is we continue to be really bullish on kind of the medium term opportunity here, but mindful that it's not Amazon, can't go in at a building to your basket and it gets delivered two, three days later. There is still difficulties. We see things like COVID resurgent really playing more of a role in commodity shortages, supply chain disruptions, labor disruptions and the distinction though for us versus kind of Q2 of last year was Q2 of last year was a lot of uncertainty of can we do work? What could the world hold? Will things ever be the same?

Whereas I think now we have a lot more clarity on kind of even with the resurgent, what the world could hold and a lot more conviction by people that we will get through this. We still need all of these things to get pilled, and we have a lot of history now on understanding how to work in this COVID environment. And so I do believe that the challenges of a potential kind of Delta wave are much more around, the things we're seeing. The supply chain disruptions that, that just make it hard to move quicker, but not what we saw a year ago, which is just like, oh gosh, what could happen?

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. Last one from me. And we haven't even hit on the numbers yet, so, and that's your domain? Just like intermediate term financial goals for Procore the, the balance of growth and profits. Like what's the framework you'd lay out there for investors who are maybe looking at this for the first time?

<<Paul Lyandres, Chief Financial Officer>>

Look, I think you heard us on the earnings calls talk about how expenses were ramping slower than planned. And I think that the takeaway there is that we plan to continue to ramp expenses. We believe that when we think of the balance between profitability and growth, we actually ask ourselves much more of the question around ROI and how to think about this investment over the arc of time; because we think we're in the early innings of this industry.

There are so many opportunities to pursue. There is much more work to do in the markets we already are in, and we're going to continue to invest aggressively. We're going to continue to lean into this industry and find ways to drive innovation, to drive improvement in the lives of folks, and so our balance is much more on thoughtfulness, efficient growth being really mindful of investing in areas that we believe we are in a competitive differentiation to be really successful in and use that as our guiding principle to kind of drive the businesses decisions.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

Yeah. Fair enough. Well I know that's a virtual background behind you, but it looks like that every day in [indiscernible] (0:27:39). I will not keep you any longer. Paul, thank you for doing this. This is going to be a fun one to cover for the next five, 10 years. So thanks for laying the foundation and look forward to continuing the dialogue.

<<Paul Lyandres, Chief Financial Officer>>

Thanks again for having me and look forward to continuing the conversation.

<<DJ Hynes, Analyst, Canaccord Genuity Group Inc.>>

All right.