Procore Technologies, Inc.

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Earnings Call

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Presentation

Operator

Good afternoon. Thank you for attending today's Procore Technologies, Inc. FY '25 Q1 Earnings Call. My name is Tamia, and I'll be your moderator for today's call. [Operator Instructions] I would now like to pass the conference over to your host, Alexandra Geller, Head of Investor Relations. You may proceed.

Alexandra Geller

Good afternoon, and welcome to Procore's 2025 First Quarter Earnings Call. I'm Alexandra Geller, Head of Investor Relations. With me today are Tooey Courtemanche, Founder, President and CEO; and Howard Fu, CFO. 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 include forward-looking statements regarding, among other things, our financial outlook, go-to-market transition, our stock repurchase program, 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 1, 2025.

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 in our periodic reports filed with the SEC.

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

Craig F. Courtemanche
Founder, Chairman, CEO & President

Thanks, Alex, and thank you, everyone, for joining us today. So I'd like to begin by addressing what's top of mind for everyone. The uncertainties and potential impacts of the tariff policies. First and foremost, I want you all to know that we have not seen any material change in our customers' behavior so far. Clearly, we are carefully monitoring this very fluid situation, and we're staying close with our customers and prospects as it develops.

Our customers are working to understand the impacts of these tariffs on their end customers and their supply chains. For example, the typical contractor has a cost structure that's made up of approximately one half labor and the other half materials. Procurement has always been a balance of obtaining the highest quality materials at the optimal price point within the fastest time frame and the introductions of tariffs do not change that calculus. For project requirements that stipulate by American, tariffs may be less relevant. And where domestic procurement might not even be possible, tariffs could increase the cost of materials and ultimately, the corresponding project costs.

Modest cost increases can likely be accommodated by contractors and their owner clients, which could benefit our business model. Some contracts have allowances or escalation clauses designed to protect GCs and subs from unforeseen cost increases and many firms buy materials at the onset of a project to mitigate the risk of future price increases. However, should costs rise to a level where a contractor or owner cannot absorb them, it is possible that projects could get delayed or even canceled. While there's no way to know for sure, some believe that if tariffs persist long term, they could spark a wave of American reindustrialization.

This outcome could drive substantial growth in nonresidential construction, creating a tailwind for the industry, our customers and ultimately, for Procore. Abroad, we have observed a renewed commitment to investment in infrastructure and nonresidential construction as exemplified by Germany's proposed EUR 500 billion infrastructure investment plan. Over time, we expect this trend may benefit the growth of our international business.

We remain optimistic that even if the construction industry and Procore were to face short-term headwinds due to the tariffs, our business could benefit from long-term tailwinds. At this point in time, we do not have any clarity on how tariffs might change the demand environment over the course of the year. Procore's pipeline remains steady and our customers haven't substantially altered their plans. We are ready to adapt our strategy by either playing offense or defense based on how things unfold in an effort to optimize our free cash flow and our per share metrics.

Look, construction is no stranger to uncertainty, change or rising costs. As the industry adapts to the evolving economic policy, just like we've seen it do time and time again, we remain committed to driving its ongoing digital transformation. And let's not forget, that the world needs to be built and rebuilt and Procore is the industry chosen partner, helping to lead the way.

Okay. So now I'd like to shift gears and spend the bulk of this call addressing how we're focusing on the things within our control and how we are managing those areas to capitalize on the amazing long-term opportunity for Procore. Let's start with our Q1 performance, which represented a solid quarter and a good start to the year. Some highlights include: we grew revenue 15% year-over-year. Non-GAAP operating margins increased quarter-over-quarter to 10%, and we now have over 2,400 customers contributing greater than $100,000 in ARR.

Procore continues to win and retain a loyal customer base because we deliver significant ROI for our stakeholders. Today, thousands of customers rely on the Procore platform to run their business, improving visibility and predictability so that they could manage risk and make smarter decisions. In a dynamic and uncertain macroeconomic environment, the need for productivity gains and risk management becomes even more paramount. This is exactly what the Procore platform is built for to help our customers complete their projects on time and on budget.

Procore's real-time reporting and analytics provide valuable insights into project costs and potential risks associated with tariff-induced price changes. Procore's document management and workflow capabilities enable meticulous documentation and change order management, which helps stakeholders protect their margins in an environment where costs can fluctuate rapidly due to tariffs.

Procore's platform fosters seamless communication and collaboration among project stakeholders, enabling quicker response to supply chain issues and cost changes. So these are just a few examples of how our platform unlocks efficiency gains and reduces risk to help customers navigate a heightened cost environment and increased complexity.

Procore continues to prioritize our platform capabilities, deepening our ability to connect all stakeholders from the office to the field and across owners, GCs and specialty contractors. We are focused on creating an even more unified collaborative experience that further breaks down silos and streamlines communication across the entire project life cycle. A key part of this effort is harnessing the power of AI.

And when it comes to the value that we can deliver to our customers with AI, we've only scratched the surface. Our agent strategy remains a key focus within our product road map. We have a number of agents in development across the platform, from productivity enhancers to potentially game-changing next best action agents. All of these agents are being built in direct response to customer feedback. The agent potential is far reaching from uncovering revenue opportunities to improving productivity and reducing risk in some of the most challenging aspects of construction.

We are still very much in the early stage of building these agents, but we are incredibly excited to test our first round of agents with our customers. As we advance our connected platform strategy, we see greater potential to unlock value for our customers. We can achieve this potential by combining the integrated data on our platform with AI agents. So take, for instance, the 2 things that matter most in construction, time and money, both of which Procore helps customers better manage today.

In the future, you're going to be able to task agents 24 hours a day with monitoring schedules and budgets alongside the data inside both the Procore platform and our partner ecosystem. These agents are being built to identify emerging patterns at real time, helping teams proactively address issues that could impact time and budget at the project level.

So to give you an example, many contracts have schedule obligations. Future Procore agents will help ensure that those specific time lines are met. AI agents will seek to find the best conditions and timing for tasks, identifying the relevant stakeholders and optimizing for their availability and then automatically sharing those recommendations with a human approval to schedule the tasks.

Historically, the only way to solve these problems was to add head count to the payroll. So these agents have the potential to drive meaningful productivity gains, reduce risk and improve margins. Not only that, these investments are going to better enable our customers to manage their businesses in a time of uncertainty or for that matter, in times of strong demand, thereby strengthening our partnership and deepening the value that we provide to our customers.

Look, this is an incredibly exciting time, especially for someone like me who's deeply involved in our product and furthering the adoption of AI in the construction industry, and I believe that the possibilities ahead of us are endless. In the near term, as we navigate this dynamic environment, we believe the measurable ROI that we deliver through our existing platform and our ability to help customers do more with less, will drive continued growth for Procore.

Over the long term, our opportunity remains as exciting as ever with several growth vectors as discussed in our last Investor Day to drive sustained and continued growth. First is acquiring new customers, which includes underpenetrated segments like owners and specialty contractors. We believe that there's more than 360,000 logos in the markets that we serve today, of which we have a little over 17,000. Second is through volume expansion. We have less than half of our customers' existing volume, meaning that we could double our committed construction volume without adding a single new customer.

Third is product cross-sell to help customers increase their efficiency and eliminate siloed point solutions. Fourth is international expansion. The TAM outside the U.S. is significantly larger than the U.S. yet it represents only 15% of revenue today. And last but not least, we remain committed to investing in our platform to launch innovative products that enhance our customers' productivity. Our customer wins this quarter demonstrate success across all of these growth levels. In Q1, we added new customers across all stakeholders, including an ENR 250 specialty contractor, global software leader Workday, a major social media platform and the Iowa Army National Guard.

In the quarter, we also added a large semiconductor company as a new customer with growing investments in U.S. chip manufacturing they needed a scalable platform to manage complex multibillion-dollar construction projects more efficiently. They intend to leverage Procore to build large-scale semiconductor fabrication construction and retrofits as well as capital expansion programs across the U.S. and Asia. This was a competitive evaluation and Procore's ability to offer a single connected platform across the entire project life cycle was a key differentiator and a big reason we won the deal.

Another large new logo win for the quarter was the European division of a global commercial real estate firm. They've been using a number of point solutions, leading to operational inefficiencies and siloed and out-of-date information. They wanted a unified platform with integrated project management and financials and powerful analytics to reduce risk and drive efficiency.

In Q1, they chose Procore to be the operating system for the future of their commercial delivery in Europe, adopting products in preconstruction, project management and financials. This is a great example of a customer who isn't just looking to manage their projects. They're engineering transformation across their operations by using Procore. We also had strong expansion wins across stakeholders in Q1, including the University of Alabama, a premier space exploration company, a Fortune 40 retailer, one of Canada's largest subcontractors and Burns & McDonnell and ENR 38 general contractors.

One of the largest wins in the quarter was an expansion win with a leading U.S. health care system. Since 2020, they had seen tremendous success using Procore for one of their regions. But the other regions were still using a mix of manual processes and point solutions, resulting in limited visibility across their overall construction operation and disjointed reported. I am proud to share that this customer expanded their use of Procore to all regions in Q1 to streamline processes across their business, drive greater consistency in reporting and provide better visibility into construction operations.

Moving forward, they will use Procore to build all aspects of hospital construction. These customer win stories highlight the wide range of use cases where Procore delivers value across the industry. We take great pride in our customers' continued growth, and we remain committed to delivering value as they navigate a dynamic economic environment. Now let's shift gears to another area within our control, which is our go-to-market transition. As a reminder, we believe this transition will position us for continued top line growth while allowing us to build deeper, lasting partnerships with our customers.

We remain confident in this operating model. As previously shared, we completed the early milestones of hiring and enablement. Our attention and focus has now shifted to adapting to the new operating model, managing change effectively, minimizing disruption and continuing to deliver customer value and growth. Q1 was the first quarter with this new operating model in place, and it's already been well received by our teams, customers and partners.

As expected, we did experience some disruption in the quarter as the teams are ramping into their new roles and they're adapting to the new business processes. We have certainly had some learnings, but we are all seeing some encouraging signs. Our customers are benefiting from the tailored market-specific approach our general managers are taking as well as from the support that they're receiving from our new technical resources.

And our sellers are diligently collaborating as they build pipeline and account plans for the year. All of this leads us to believe that we are on the right track. So when it comes to areas within our control, we are pleased with the progress that we've made. There's still more work ahead, and we anticipate change management will continue through at least Q2 as the organization acclimates this new model, but we remain highly optimistic about our long-term trajectory. This operating model is beneficial to our customers and creates a more aligned go-to-market effort that deepens our customer relationships and better positions Procore to succeed in both stronger or weaker demand environment.

So now I'd like to give you an update on our CEO succession plan. In March, we announced that I decided to initiate the search for my successor. We clearly stated that there is no set time frame for the search and it's business as usual at Procore until we bring on the right candidate. Our performance this quarter reflects that continued focus. Announcing this early has already started to pay dividends in the form of strong referrals, and I am personally very thankful to our shareholders and fellow technology and construction leaders who have passed along qualified recommendations. We recently hired a search firm, and we're taking a thoughtful and patient approach as we search for Procore's next CEO.

We are not in a hurry, our priority is finding the right candidate, an excellent operator with experience leading companies at scale who shares our passion for connecting everyone in construction on a global platform. So I want you all to know that I am as committed as ever, and I could not be more excited about Procore's promising long-term potential.

And with that, I'll turn it over to Howard to share more on our business performance. Howard?

Howard Fu
CFO & Treasurer

Thanks, Tooey, and thank you to everyone for joining us. The main topics I would like to cover today are our Q1 financial results, additional color on the quarter and our outlook. Total revenue in Q1 was $311 million, up 15% year-over-year, and international revenue grew 18% year-over-year. Our Q1 international results were slightly impacted by currency headwinds. On a year-over-year basis, FX contributed approximately 2 points of headwind to international revenue growth. Therefore, on a constant currency basis, International revenue grew 20% year-over-year. Q1 non-GAAP operating income was $32 million, representing a non-GAAP operating margin of 10%.

As for our key backlog metrics, current RPO grew 20% year-over-year and current deferred revenue grew 15% year-over-year. Now let me share some additional color on the business. In addition to our execution in the quarter, current RPO continues to primarily benefit from a longer contract duration. This is reflected in the notably higher growth rates in our noncurrent RPO over the last 2 quarters. Longer contract durations can result in greater stability in current RPO growth for a longer period of time.

For example, a customer on a 12-month contract that renewed at the end of Q4 would have approximately 9 months of contract value in cRPO when we report Q1. But if that same customer renewed for 24 months at the end of Q4, then cRPO would reflect 12 months of contract value when we report Q1.

When normalizing cRPO for this dynamic the year-over-year growth continues to be in the mid-teens. We expect this dynamic to continue to benefit cRPO for at least the second quarter of fiscal '25 and which may result in a continued disparity between cRPO growth and out quarter revenue growth. From a profitability standpoint, we expect to deliver continued margin improvement for the year. The entire management team remains aligned and committed to continuously improving our profitability.

Additionally, we believe we have levers to deliver incremental margin improvements should tariffs result in notable headwinds to demand. Optimizing free cash flow per share remains our primary focus in driving shareholder value. and one lever we have is to opportunistically repurchase shares. In the first quarter, we returned approximately $100 million in capital to shareholders by repurchasing approximately 1.5 million shares at an average price of $68.96.

We intend to continue repurchasing shares in Q2 should market conditions appear attractive. With another $200 million authorized under the existing program, we will continue to look for opportunities to use this lever to compound free cash flow per share, as we remain as convicted as ever in the long-term opportunity for Procore.

Moving to tariffs. As you heard from Tooey, this is a fluid and evolving environment, we do not have clarity on how tariffs could change the demand environment this year. As of today, we have not seen meaningful impacts to our pipeline from the tariff policies. For that reason, we have not made material changes to our internal expectations so far. However, we are continuously monitoring the situation closely and evaluating a range of potential scenarios to prepare for various outcomes. Spend discipline and operating leverage are in our control regardless of external factors.

Should a material demand headwinds arise as a result of tariffs we are prepared to pull various financial and operational levers to deliver incremental margin expansion without sacrificing long-term growth opportunities. We have a history of balancing growth and margin in challenging times. For example, we delivered more than 2,000 basis points of non-GAAP operating margin improvement in 2020 during COVID. As we communicated at our Investor Day, we remain confident in our path to achieve 25% free cash flow margins in the medium term and 40% free cash flow margins in the long term. in a prolonged slower growth environment, we believe we could achieve these profitability targets even faster.

While the tariff policies have not materially changed our optimism about the long-term opportunities for Procore, it has influenced how we are choosing to guide for this year. When we initially shared our conservative fiscal '25 revenue guidance, our intent was to flow through our quarterly revenue beats to the updated full year guide. In light of the tariff situation and despite our strong Q1 performance, we are maintaining the high end of our previously issued full year guidance.

We remain very confident in our ability to achieve our guidance despite the increased uncertainty due to the evolving tariff policies.

With that, let's move on to our outlook. For the second quarter of 2025, we expect revenue between $310 million and $312 million, representing year-over-year growth of 9% to 10%. Due to non-GAAP operating margin is expected to be between 11% and 11.5%. For the full year of fiscal '25, we are maintaining the high end of our revenue guide with a range between $1.286 billion and $1.29 billion, representing total year-over-year growth of 12%. We are maintaining our non-GAAP operating margin guidance for the year to be between 13% and 13.5%, which implies year-over-year margin expansion between 300 and 350 basis points.

To wrap up, we are pleased with how we started the year, and we remain very optimistic and confident that we have multiple paths to improve our financial profile over the long term. We are the category leader, serving one of the world's largest industries, and we will prioritize efficient growth and strong per share improvement. With that, let's turn it over to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] The first comes from Saket Kalia with Barclays.

Saket Kalia
Barclays Bank PLC, Research Division

Howard, maybe for you, the cRPO acceleration was great to see and appreciate some of the dynamics that you called out with noncurrent RPO, maybe thinking about the normalized growth that you called out, can you just talk about some of the drivers there qualitatively in terms of strength of new logos versus maybe net revenue retention from your existing? And when does that benefit from noncurrent RPO maybe normalize?

Howard Fu
CFO & Treasurer

Yes, sure. Thanks, Saket. So I think in Q1, we had a strong new logo quarter, and I think that definitely contributed to our performance in Q1. Some additional color that I'll talk about is, remember, we're viewed as partners, strategic partners to our customers. And one of the things that drove the increase in duration is really from the increase in terms of the pooled models that we think customers signed up for in Q3 and Q4.

And the reason that's important is because it really gives our customers some flexibility to consume the volume that they buy from Procore over a longer period of time. So we think that, that's what drove some of the longer duration. And just to give you a little bit more specifics of duration uptick from historically about 20 months to about 21.5 months and the proportion of our ARR, that is on multiyear deals increase from roughly about 38% of the ARR to about 43% of the ARR.

Now In terms of when this might normalize, we're probably looking at the back part of the year, probably in Q4, is when this will normalize. And we just wanted to provide color in the quarter to make sure folks understood that delta between where cRPO growth and where revenue growth is, is really in the mid-teens in terms of cRPO.

Saket Kalia
Barclays Bank PLC, Research Division

Yes, absolutely. That's really helpful call out. Tooey, maybe for you, I'd love to dig into some of the changes from last year, particularly international. As you brought on more management and at the local level, what are some of the early signs that you're seeing on things like pipeline or customer conversations? Or any other metrics that you use to gauge success internationally?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes, great question, Saket. By the way, this -- we're well into the middle of our transition. So there's a lot that's happened since the last time we spoke. But yes, on the international front, this is really one of the big, big reasons why we made this change moving to the GM model was we really wanted to create more bespoke go-to-market effort in the markets that we are serving. And one size fits all just wasn't going to scale.

So the thing that I can point to is I talk to customers all the time and I freaking love it. One of the things that I hear often is, hey, these new technical resources that you guys have been contributing to our accounts have actually made our adoption and our engagement go up and they're grateful for it. And those are resources they didn't have access to before. And so all of that just leads us to believe that growth will fall in line and things are going to continue to move in a very positive direction.

So we are very happy with where we are in the process of making this transition. And the green shoots are there. One other area to just note is when you look at a project team, an account manager and the customer success engineer and all the folks that are swarming in account, when those teams are operating as a unit and they're really fired up and they're finishing each other sentences, you know you've got the right org design, and I'm seeing that again and again. So very, very positive.

Operator

The following comes from Dylan Becker with William Blair.

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

Maybe, Tooey, kind of sticking on that, on the go-to-market front. The customers obviously are facing a lot of complexity in the current backdrop. But how that emphasis of swarming kind of plays into that long-term strategic partnership positioning, addressing things like rising input costs, labor constraints, things of the like and kind of maybe how that enables you or gives you confidence in your ability to continue cross-selling expanding the volume base and several kind of the core tenets of the growth algorithm that you pointed to?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. So Dylan, the one thing to just point out, which I know you know is what Procore really was built for was to drive efficiency and productivity into our customers' businesses. And so what we're seeing is in this time of additional stress and uncertainty in the marketplace, that the customers are actually very grateful that we're actually providing the services that we do.

I was talking to one of our largest customers yesterday, and they were saying that they are grateful that we are a partner and not a vendor in these moments because we do so much more than just provide them with software and then we partner with them on how to work through these big challenges and how to create the transparency on the job site so people can see where the risk lies. So yes, I think this is where Procore shines. And it's an honor to be a partner with the industry during these challenging times.

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

Great. Okay. That's helpful. And then not going to miss the AI opportunity this time for you, Tooey. But how do you think about your kind of positioning in light of what you just said as well, too, given where you sit in the construction ecosystem today? And the access to curated data and the workflows to drive level of automation and productivity. I mean how does that give you the perception of the right to win in an increasingly agentic-oriented world?

Craig F. Courtemanche
Founder, Chairman, CEO & President

By the way, I love this, Dylan, this is my -- this is where I spent a lot of my passionate time. So yes, what we have and we have this unique vantage point, which no one else has, because we were built in the cloud, we only serve construction. We're a single code base. We have everything, and we have a great partner ecosystem that provides data into the ecosystem.

So because we have the corpus of data that we do across so many different project types, across so many different stakeholders and across so many different geos. We have the data to look for pattern recognition to help our customers run better businesses. And that is exactly what agentic work is all about. Let me give you an example. We have an agent that we're building with some customers right now around daily logs on the job site.

And a daily log on a job site is essentially a very important document that fills out who was on site, what accidents happen, what observations happen, what photos happen, what visitors, what deliveries, all that information has to be gathered on a daily basis. If the project manager doesn't do it, they incur a lot of risk for their business.

So our customers, the executives come to us all the time saying, we need to repay somebody to go look in all those daily reports every day to see who hasn't filled them out. And now we have agents that are doing that 24/7 with a couple of customers in the pilot, and it's just game-changing. It's not like super technical, but it's super valuable, and that's what we're focusing on is delivering value and productivity tools to our customers.

Operator

The next question comes from Joe Vruwink with Baird.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

You made a comment in the past that the length of a recession matters as much as the depth of a recession. I know all the tariff news is fairly fresh. But maybe when you audit customer decisions, and I guess this would be more of the annual variety. Does it seem like there's maybe any bracing for a shorter downturn? And I guess if one takes the view that the downturn is short before the long-term tailwinds Tooey spoke to, I would imagine they're probably not changing their volume commitment because that impedes them on the other side. Is there maybe that thought process that's helping kind of preserve the financial performance in the quarter?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Well, Joe, I would look at it a little bit differently, which is our customers, they tend to be -- they tend to plan over the long term more than they react to the short term. They're running projects in a lot of cases that are 2 years long. So for them, their business is way out over the horizon, and they're not going to make kind of rash decisions based off of new cycles, but that doesn't mean that they're not very aware of what's going on. And all of the folks I'm talking to are doing all of the prudent things that any other business owner would do, which is running scenario, planning -- putting in some cases, subcommittees together. They'll have folks that are focusing on commodities, in pricing and pre-purchasing of materials before jobs.

And of course, their legal team is trying to get their escalation clauses into every contract that they have in order to be prepared, but the takeaway on this one, Joe, is no one is sounding the alarm. This is just people doing what they do when they're running a great business. And then when I think about what Procore is doing, as much as there's a lot of noise out there and trust me, we do the scenario planning like everyone else. We focus on what's in our control. And we put all of our energy in the things that we can do to make our customers more productive and make them have better margins. And so to us, that's where our focus is.

Joseph D. Vruwink
Robert W. Baird & Co. Incorporated, Research Division

And then touching on something you just said, I mean, with tariffs, there's going to be a lot of legal changes and the contractual arrangement owners and contractors have with one another, management of the project itself trend differently. I guess when you think about your financial and resource management solutions, are you seeing a spike in interest there? Can those kind of serve as new conversation starters or lead generation to maybe pitch the broader suite?

Craig F. Courtemanche
Founder, Chairman, CEO & President

I would say we haven't seen any material change, not to say that our customers and the prospects out there don't value highly our financial products. They basically are -- they're basically not overreacting. And again, like I said, they're not making quick decisions. And actually, Joe, this gives me an opportunity. An analogy I'd like to share with folks is -- if you and I walked into an emergency room on a Friday night at

10:00 p.m. as lay people and we looked at what was going on in the chaos, the mayhem, the fear, the gore and everything else, we would have one perspective.

But if you turn your perspective briefly to what the ER doctor who's been working in that same ER room for the last 10 years, their perspective, which is they're used to dealing with uncertainty. They're used to dealing with chaos and regulation.

And so that's the way I look at the industry is that these folks deal with us all the time. Look, I've been doing this for many years, since 2002, I've seen time and time again, there's a new issue du jour that they have to deal with. But what they do is they deal with it. And they deal with it consistently and they deal with it well and the best ones deal with it really well and they come out better than they went into it with.

Operator

The next question comes from Brent Bracelin with Piper Sandler.

Brent Alan Bracelin
Piper Sandler & Co., Research Division

Tooey, I wanted to maybe double-click into kind of customer growth. If we think about the opportunity here, I get that revenue and backlog could be impacted by a slowdown in construction. Good to see it's not happening yet. But as you think about what would -- how would you measure progress, let's say, a year from now, you added 200 new customers this quarter.

You can't control the volume they come on, but you can control the number of customers that decide to standardize on Procore. So is that the North Star over the next year, is it all about customer adds? Walk through the metric, if you can't control revenue, would it be customers and logos that we should really look to see where you're having the most success?

Craig F. Courtemanche
Founder, Chairman, CEO & President

So one thing that I pointed out, Brent, was that we have 2,400 customers that are contributing over $100,000 in ARR. For us, it's much more about the dollar volume than it is the customer volume because in our world, there's a lot of SMB folks that do less than $5 million a year. But they're -- it's not an area where we spend a lot of our time. And so that's where we would get the logo count increase that you're talking about. Now of course, I always want more, and that's my job, right?

So but -- and we have been seeing success. The owners business has been showing some success. And so our international business, our cross-sell and our upsell. And then when I zoom way out, and I'm like, Brent, the TAM that we are focusing on is so big, and there's so much untapped opportunity for us out there. And that we have -- like I mentioned in the opening remarks, we have half of our customers' volume we just got the other half, we would double the size of this great business. There's just so much ahead of us.

And then you get me thinking about like all the things that we're doing, I think, doing well like our go-to-market transition, like all of the work that we're doing with agents and AI, I just -- the future is very bright.

Brent Alan Bracelin
Piper Sandler & Co., Research Division

And then, Howard, you mentioned one thing. I just wanted to double-click on relative to longer duration. I think you talked about mix of ARR 20-plus months. How does that impact rev recognition? If a customer signed larger contracts, if they slow consumption of those contracts, maybe in year 1? Do you see a little bit of a change in rev rec there or not, that would just only have an impact on cRPO and not revenue?

Howard Fu
CFO & Treasurer

Yes. Brent, it actually doesn't impact rev rec at all. And you can think about it this way, with the longer durations and the longer proportion of customers with multiyear deals. What it does is actually reload cRPO sooner. So for example, instead of reloading cRPO in Q3 of this year, those longer durations allowed us to reload cRPO in Q1 and Q2. And that's why we wanted to call that out. And that separation, if you control for that, Brent, our cRPO growth would still be in that mid-teens range.

Operator

The next question comes from Kash Rangan with Goldman Sachs.

Matthew Vincent Martino
Goldman Sachs Group, Inc., Research Division

This is Matt Martino on for Kash Rangan. Tooey, one for you. I imagine with all the uncertainty out there, Procore's deflationary value prop to the construction industry should really start to resonate with customers. It seems like especially with the recent go-to-market enablement efforts, there could be a greater opportunity to cross-sell some of these newer products where there's still a lot of white space. I'd love to get your thoughts on any areas or products you believe Procore can lean into to help customers navigate through a more dynamic macro.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes, Matt. So one of the big reasons why we did this transition that we're going through is we wanted to get closer to the customer. We wanted to drive adoption and engagement, which we believe gives us an opportunity and the right to have a conversation with the customer about these other productivity enhancement tools that we have to offer them. .

And so that is really the journey that we're on. And so it really depends on the stakeholders. So owners need different tool sets than the specialty contractors. And GCs need a different set, too. So there's always an opportunity to increase the number of products that our customers adopt of ours, and I'm glad that we now have the teams in place to have those conversations.

Operator

The next question comes from DJ Hynes with Canaccord.

David E. Hynes
Canaccord Genuity Corp., Research Division

Maybe Tooey, sticking with that go-to-market realignment threat, I mean, you alluded to kind of modest disruption in Q1, but you also said there were some learnings that you picked up as part of this process. Maybe you could just double click on what those learnings were and kind of how that informs or changes the strategy, if at all, kind of going into Q2 and Q3?

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. Let just share some learnings with you. But I think the big takeaway here, DJ, is that everything is kind of going pretty much to plan, right? And by the way, when you embark on a journey to do a go-to-market transition to the scale and the scope in which we did, you go through scenario planning and not everything ends up in your scenarios where you would hope they would. And I would honestly say that we believe that we've ended up in a great place in this transition.

And to your point, yes, there have been some learnings along the way. Change management is never easy, right? Communication is key. And if you don't get some of the communication right, you got to go back and fix it. But in general, I really believe that we've done a great job on this and that we're making great progress.

Howard Fu
CFO & Treasurer

DJ, this is Howard. I'll just really quickly add on, the short answer is we're about exactly where we thought we would be, both in terms of the disruption that we expected as well as some of the green shoots that we expected. And we expect to continue on this journey through Q2 and then we still expect to get some of this benefit going into the back part of this year. And we're about where we thought we would be, and that's a sign, and it gives us additional confidence that this is the right model to go towards as we go after this long-term opportunity for Procore.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. I would say definitely not mission accomplished. I don't want to send that, DJ, but -- and we have work left to be done, but I'm definitely happy with where we've ended up.

David E. Hynes
Canaccord Genuity Corp., Research Division

Good. Yes. That's great to hear. Howard, maybe the financial follow-up to that would be just looking at like Q1 sales and marketing OpEx. I was a little surprised to see it below Q3 '24 levels, right, especially given kind of the incremental hiring you did in the back half of last year. So are there efficiencies that are being drawn out elsewhere in the model? Like how should we think about kind of that OpEx line specifically as you continue to scale there?

Howard Fu
CFO & Treasurer

Yes. In the back part of fiscal '24, DJ, there were a lot of onetime things that we actually deployed and invested in that we talked about last year. Those are onetime and did not persist into fiscal '25. However, we still did continue to add resources and a significant amount of resources to support these changes on the go-to-market side in Q4 and to the first part of Q1, which then offset that -- which then offset at that a little bit. But it was really about a lot of the onetime pieces from last year.

And just to remind everyone, look, what we're optimizing for is not any particular expense in a quarter or cRPO quarter or anything like that. It's really about optimizing free cash flow per share and compounding free cash flow per share over time.

Operator

The next question comes from Adam Borg with Stifel.

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

Awesome. Maybe the first one, Tooey. So to your point, obviously, if there's a potential downturn here. It's always a great opportunity to go deeper into the installed base and you talked about having less than half the ACV volume in the existing customers, and there's another 50% plus remaining. Any thought or any visibility into of the ACV that you do not have today? What is already in a competitor's book of business, what's not available altogether? Just trying to size the size of that opportunity? And then I have a follow-up.

Craig F. Courtemanche
Founder, Chairman, CEO & President

Yes. So by the way, one thing to think about, Adam, is that a lot of the accounts that we're going into right now, they don't have an existing system or if they do, they're using Microsoft Office or some sort of kind of homegrown situation or a bunch of point solutions. And in some cases, some old ERP systems to do their project management. So it's not really as uniformly spread as you would -- one might think across that.

Generally, the only reluctance our customers have to bring on more volume is it's a matter of change. Like are they going -- is there a division within their organization. They have to go through a whole bunch of change management in order to go through, is there a division that's working for a particular sector where they have some specialized software that they might be using. So it's all of that. But to me, it's all gettable, it's all greenfield and it's all ours for the taking. We just have to go get it.

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

No, that's super clear. And that's really exciting. Maybe as a follow-up, Howard, just on gross margin, it was a little bit lower this quarter relative to the last number of quarters. Just any color there on how we should think about for the rest of the year?

Howard Fu
CFO & Treasurer

There's really nothing to take from that. The gross margin tick down was really a result of some of the changes we made on the go-to-market side, that shifted some of the expense from sales and marketing to cost of revenue. It's neutral to free cash flow. It's neutral to operating margin. It's really a function of where it sits on the P&L. So there's nothing really there to look at. Over time, we still expect gross margins to be in the mid-80s, plus or minus 1 or 2 points, and that's the way that you should think about the profile.

Operator

The final question is from Jason Celino with KeyBanc Capital Markets.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Maybe just a couple of questions on the duration update. Is this being driven by maybe some of the go-to-market changes? Like are there any incentives that the salespeople are getting to drive some of these pooled deals or these longer deals? And then maybe why would it normalize in Q4? Is that just a function of lapping?

Howard Fu
CFO & Treasurer

Yes. So the last part of that question is, yes, it's just lapping kind of when these changes started to take place in Q3 and Q4, and you could see that in the growth rate of our long-term RPO. I want to be clear. There are no special incentives that we are putting in place for our field to sell longer-term deals. And as I mentioned earlier on the Q&A, we believe it's because our customers, again, looking at us as a strategic partner, really wanting the flexibility to consume the ACV that they buy from Procore and things like multiyear pool models allow them to do that. And we started to see that in Q3 and Q4, and that's what's impacting the duration.

Jason Vincent Celino
KeyBanc Capital Markets Inc., Research Division

Okay. Excellent. And then maybe just one question on guidance philosophy. I think this earnings season has been quite different for many companies and different management teams are taking a different approach. You spoke about it in the prepared remarks a little bit, but can you maybe just speak to how you're thinking about the revenue guidance and conservatism?

Because when I look at the 2Q guidance that decelerates and there's an implied reacceleration in the back half. Just curious how you're approaching this.

Howard Fu
CFO & Treasurer

Yes. We're approaching it very conservatively. The guide has the ability to withstand a significant decline in our demand environment, and we would still be able to hit and beat that guide. Internally, we continue to evaluate a range of scenario outcomes, and we have conviction that the guide is enough to cover a significant down case. .

We continue to control what we can control, and we continue to optimize for free cash flow per share and we will continue to manage the business appropriately on what we can control, regardless of what's going on in the external market. And we think we have room to not just beat the revenue guide, but the opportunity to provide incremental margin improvement should we see the demand headwinds pick up. I want to be clear that we haven't seen any material changes on that today.

Operator

Thank you. Thank you for your participation today. This concludes today's conference call. You may now disconnect your lines.