

Initiated 2026-09-20 · Price \$51.27 (as of 2026-09-18 close, stockanalysis.com) · Mkt cap \$7.79bn · Technology / construction management software · Model: verified (generic, full tier)

Rating: Sell — Conviction: Medium

Procore is winning the category it created, has just crossed into GAAP operating profit, and trades 38% below its 52-week high — and it is still a Sell, because of what the transition costs. Stock-based compensation was 18% of revenue in FY2025 and \$121mm in H1 2026; charge it as a cost and the 19% non-GAAP operating margin management guides to becomes a GAAP operating margin near -1%, and the free cash flow the market capitalises at roughly 28x shrinks to almost nothing. On that lens Base lands 40% below the last close, and only the Bull driver set — nineteen points of margin in five years with construction volume never turning down — clears the price, by 11%. The August financing sharpens it: \$950mm of zero-coupon converts turned a net-cash balance sheet into roughly \$450mm of net debt to buy DroneDeploy for \$845mm, an asset whose revenue contribution has not been disclosed.

MODEL VALUE RANGE VS PRICE



Business overview

Procore runs the cloud system of record for construction projects — preconstruction and estimating through project execution, financials and field workflows — sold to owners, general contractors and specialty contractors, and priced on the annual construction volume a customer runs through the platform. FY2025 revenue was \$1,322.5mm, +14.8%; FY2026 guidance is \$1,510–1,514mm, raised twice. Three variables drive earnings: construction volume under management, operating leverage as non-GAAP margin expands (21% in Q2 2026, +800bp year over year), and stock-based compensation, \$238mm in FY2025, which is the entire distance between that non-GAAP margin and a GAAP one. Gross revenue retention is 95%; organic customers above \$100k of ARR grew 14% to 2,871.

Bull case

- GAAP profitability arrived and the margin slope is steep.** Q2 2026 delivered the first GAAP operating profit (\$4.3mm) at a 21% non-GAAP operating margin, +800bp year over year; FY2026 guidance was raised to 18.5–19% (+440–490bp) with a 19.5% free cash flow margin. *Model: ebitda_margin*
- The float funds the business.** Net working capital is -\$486mm, 36.8% of revenue, because subscriptions are billed up front; current deferred revenue was \$687mm at FY2025. It is a growing cash source in every projection year and offsets structurally high capitalised-software capex. *Model: nwc_pct_rev, capex_pct_rev*
- DroneDeploy was bought with free money.** \$845mm cash, closed 2026-09-09, funded from \$950mm of 0.00% converts due August 2031 struck at \$82.89 with a capped call to \$110.52. Zero-coupon six-year paper is about as cheap as growth capital gets, and reality capture extends the system of record plausibly. *Model: rev_growth*

4. **The de-rating came without a growth break.** Shares are 38% below the 52-week high of \$82.32 while guidance was raised twice, retention held at 95% and the \$100k+ ARR cohort grew 14%. Nothing reported explains the move. *Model: exit_ev_ebitda*

Bear case

1. **The end market is cyclical and the pricing is indexed to it.** Subscriptions are sized on the construction volume a customer puts through the platform, so a starts downturn cuts revenue directly rather than only delaying new logos — which is why the recession rows below bite harder here than for software sold into a defensive customer base. And 95% gross retention is five points of leakage a year. *Model: rev_growth*
2. **The base case is nowhere near the price.** Base midpoint \$30.81 against a \$51.27 close, -40%. Only the Bull set — 14–18% revenue growth for five years and GAAP EBITDA margin reaching 23% — values the equity above the current price, and it clears it by 11%. *Model: exit_ev_ebitda, wacc*
3. **Stock-based compensation is the entire profit.** \$238mm in FY2025, ~18% of revenue; \$121mm in H1 2026. Base needs it to fall by roughly a third as a share of revenue while the count stays flat, and historically buybacks have absorbed issuance rather than shrunk the count. If growth slows, retention grants rise. *Model: ebitda_margin*
4. **The balance sheet flipped from net cash to net debt to buy growth.** \$950mm of principal against roughly \$503mm of pro-forma cash. Zero coupon is not free: it is \$950mm due 2031 at a conversion price 62% above the last close, and the proceeds bought an asset whose revenue has not been disclosed. *Model: FY0 net debt (credit.debt , market.cash) enters value directly; cost_of_debt and capital_return_pct move EPS and net cash only*

Valuation & balance sheet

Metric (definition)	Current	Own history	Peers	Source, as-of
EV / forward revenue (pro-forma EV \$8.24bn ÷ FY2026 guidance midpoint \$1,512mm, which excludes DroneDeploy)	5.4x	~8.4x at the 52-week high of \$82.32 (est., same revenue)	n/a (unverified)	q2fy26 + quote, 2026-09-18
EV / free cash flow (FY2026 guided 19.5% FCF margin ≈ \$295mm, before ~\$250mm of SBC)	27.9x	34.7x on FY2025 FCF of \$237mm at the same EV (est.)	n/a (unverified)	q2fy26 + quote, 2026-09-18
EV / EBITDA (GAAP operating income + D&A)	not meaningful on FY2025 (EBITDA – \$13.8mm); 77x on the model's FY2026E \$106mm	FY2023 –\$144mm, FY2024 –\$47mm, FY2025 –\$14mm	n/a (unverified)	xbri-oi + sacf; model-summary.json
Rule of 40 (guided FY2026 revenue growth + guided non-GAAP operating margin)	33.5 (14.5 + 19.0)	~28.9 in FY2025 (14.8 + 14.1)	n/a (unverified)	q2fy26, 2026-07-29

Model-implied value range (from model-summary.json ; generic module, DCF-Gordon and DCF-exit-multiple, midpoints): Bear \$7.84 · Base \$30.81 · Bull \$56.98 per share, i.e. implied returns of -85% / -40% / +11% vs \$51.27. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* Nothing floors at zero, so the range and the scenario table are informative. The shape is the finding: Base already assumes a 13% five-year revenue CAGR and GAAP EBITDA margin going from -1.0% to 18.0%, and at a 17x exit that still produces a Y5 enterprise value below today's \$8.24bn. The counter-case deserves stating plainly, because it is the whole disagreement: on the company's own framing — 28x FY2026E free cash flow, 25.6x forward non-GAAP earnings, Rule of 40 at 33.5 — this reads as an ordinary Hold. The Sell depends on treating \$250mm of annual SBC as a cost, which shrinks that free cash flow to roughly \$45mm. That is the right lens and the model applies it consistently, but it is one judgment doing a great deal of work, which is why conviction is Medium.

Balance sheet: pro forma for the August notes and the DroneDeploy close, net debt is roughly \$447mm — \$950mm of 0.00% converts due 2031-08-15 against ~\$503mm of cash. Leverage on FY2025 EBITDA is not meaningful (EBITDA was negative); against the model's FY2026E base EBITDA it is about 3.7x, falling to 1.7x by FY2027 and to net cash by FY2030 on the base path. Coverage is not meaningful at a zero coupon. Liquidity is that cash plus roughly \$295mm of guided FY2026 free cash flow, against no maturity before 2031. Operating lease liabilities are excluded. No agency rating was retrieved in this session.

Model note: Built, full tier, generic module, 0 failing error checks, one failing warning check, no scenario CHECKS. `verification.status` is `verified` as of 2026-09-20 (LibreOffice's independent recalculation matches the Python values on every formula cell; it was `not_run` at initiation because the environment's LibreOffice install was missing its Calc component). **One unverified input:** `market.cash` of \$503.4mm is an estimate built from sourced components — \$655.9mm of cash and short-term investments at 2026-06-30, plus \$926.6mm net note proceeds, less \$59.1mm capped call, less the \$175.0mm concurrent repurchase, less \$845.0mm for DroneDeploy — and it excludes Q3 free cash flow, so it is conservative. No assumptions without a basis. Three conventions. (1) `ebitda` is GAAP operating income plus D&A, so **SBC is expensed** — not the company's non-GAAP figures, and the source of the gap between this model and the headline multiples. (2) `share_change` therefore carries only the residual net count change, not gross dilution. (3) `cost_of_debt` is zero: the converts pay no coupon and pro-forma cash earns ~4%, so real net interest is a small credit the module's net-debt-times-rate convention cannot express; this affects EPS, not the DCF values. DroneDeploy's revenue is not disclosed in any source used here, so it is only coarsely reflected in Y1–Y2 growth — an acknowledged soft spot in Base. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

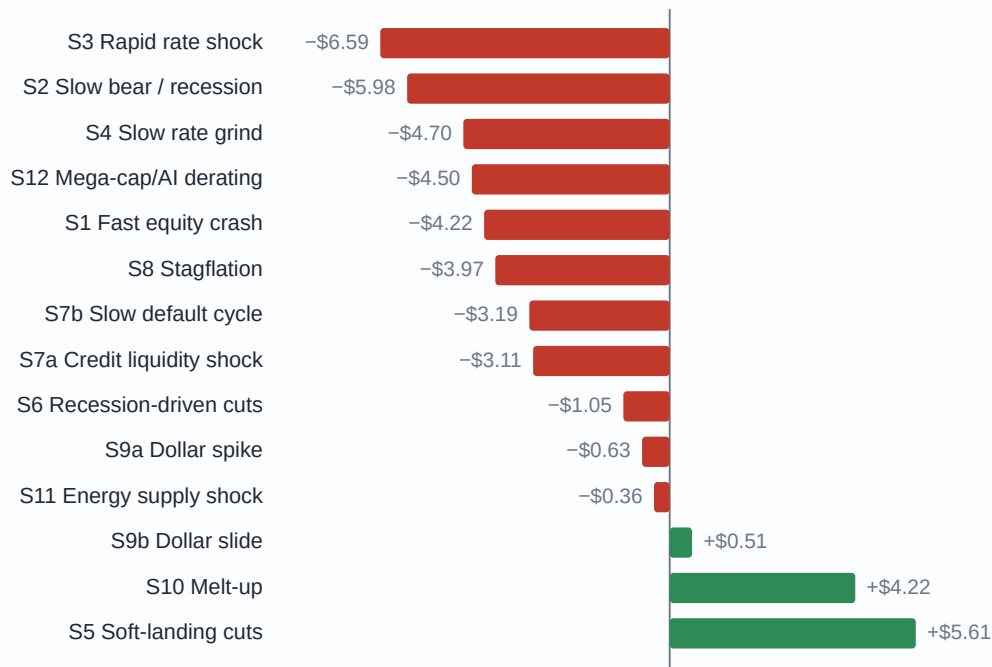
Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Barely-GAAP-profitable growth software de-rates in a liquidity event with bookings untouched	Medium	–\$4.22
S2 Slow bear / recession	–	Subscriptions are sized on construction volume, so a starts downturn cuts revenue directly, not just the pipeline	High	–\$5.98
S3 Rapid rate shock	–	Worst row. Double hit: long-duration cash flows repriced <i>and</i> construction starts, which are financing-dependent, slow	High	–\$6.59
S4 Slow rate grind	–	Grinding cost of capital compresses the terminal multiple while slowly cooling project starts	High	–\$4.70
S5 Soft-landing cuts	+	Best regime by some distance: cheaper construction financing lifts starts while the discount rate falls	High	+\$5.61
S6 Recession-driven cuts	–	Unlike a defensive software customer base, construction volume actually falls here; the rate relief does not cover it	Low	–\$1.05
S7a Credit liquidity shock	–	Own balance sheet is safe to 2031 at a zero coupon, but developers and contractors depend on project finance	Medium	–\$3.11
S7b Slow default cycle	–	Contractor and developer failures show up as churn against a gross retention rate already at 95%	Medium	–\$3.19
S8 Stagflation	–	Materials and labour inflation pushes marginal projects past budget, Procore's own wage costs rise, discount rate turns hostile	Medium	–\$3.97
S9a Dollar spike	–	International revenue translated lower; the non-US share is material but not disclosed in the sources used, so sized small	Low	–\$0.63
S9b Dollar slide	+	Mirror-image translation tailwind	Low	+\$0.51
S10 Melt-up	+	Narrow breadth and low volatility push growth-software multiples back up on no change in fundamentals	Medium	+\$4.22
S11 Energy supply shock	–	Diesel and materials spikes delay marginal project starts	Low	–\$0.36
S12 Mega-cap/AI derating	–	Priced as growth software with an AI story (reality capture via DroneDeploy) and almost no GAAP earnings to catch a leadership unwind	High	–\$4.50

Magnitude labels re-ranked 2026-09-25 to match the model's dollar deltas (skill 3a-v-b item 7; the 2026-09-24 generator fix enlarged multiple-shock rows): S8 High → Medium.

The distinguishing feature versus a pure-duration software name is that the rate rows and the recession rows both bite: S3 is worst precisely because higher rates hit the discount rate and the customers' project financing at once, and S5 is the only meaningfully positive

row. All the deltas are small against the \$49 spread between Bear and Bull — the macro overlay is second-order to whether the margin transformation happens. **Currently active/on watch per the playbook:** S3 partially active; S8, S10, S11 on watch. S3 being live is the single most unhelpful backdrop for this name.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: SBC falls below roughly 13% of revenue while the non-GAAP margin guide holds — the one change that would move Base toward the price; or DroneDeploy is disclosed to add ARR growing faster than the core, which would repair the softest part of the Base case; or gross revenue retention improves toward 97%. **Downgrades further if:** gross revenue retention drops below ~93%; or FY2027 revenue is guided below 10% growth; or the non-GAAP operating margin ramp stalls at the FY2026 level while SBC stays near 18% of revenue.

Watch items

- **W1:** Q3 2026 results — does the 18.5–19% FY2026 non-GAAP margin guide survive DroneDeploy consolidation, and is any DroneDeploy revenue figure disclosed — expected early November 2026 — *Model: rev_growth, ebitda_margin*
- **W2:** SBC as a share of revenue — must fall below FY2025's 18.0% and keep falling for the Base margin path — quarterly release and 10-Q — *Model: ebitda_margin, share_change*
- **W3:** Gross revenue retention — currently 95%; below ~93% would signal contractor stress rather than product churn — quarterly release — *Model: rev_growth*
- **W4:** Diluted share count — does the August repurchase of ~3.17mm shares plus ongoing buybacks actually hold the count flat against SBC issuance — quarterly release — *Model: share_change*

Sources

- Procore Technologies Q2 2026 results (Form 8-K Ex. 99.1, filed 2026-07-29) — <https://www.sec.gov/Archives/edgar/data/1611052/000162828026050615/pcor-q226x8xkxexx991.htm> — accessed 2026-09-20
- SEC XBRL companyconcept — PCOR RevenueFromContractWithCustomerExcludingAssessedTax (FY2025 10-K, accession 0001628280-26-011055, filed 2026-02-24) — <https://data.sec.gov/api/xbrl/companyconcept/CIK0001611052/us-gaap/RevenueFromContractWithCustomerExcludingAssessedTax.json> — accessed 2026-09-20
- SEC XBRL companyconcept — PCOR OperatingIncomeLoss (same accession) — <https://data.sec.gov/api/xbrl/companyconcept/CIK0001611052/us-gaap/OperatingIncomeLoss.json> — accessed 2026-09-20
- Procore Technologies Form 8-K, 2026-08-06 — \$950mm 0.00% convertible senior notes due 2031 — <https://www.sec.gov/Archives/edgar/data/1611052/000119312526338452/d169822d8k.htm> — accessed 2026-09-20
- Procore Technologies Form 8-K, 2026-09-09 — completion of the DroneDeploy merger — <https://www.sec.gov/Archives/edgar/data/0001611052/000119312526386428/d59216d8k.htm> — accessed 2026-09-20
- Procore to acquire DroneDeploy for \$845M (Construction Dive, 2026-07-29) — <https://www.constructiondive.com/news/procore-acquires-dronedeploy-data-ai-cash/826667/> — accessed 2026-09-20
- Procore Technologies (PCOR) quote and key statistics — <https://stockanalysis.com/stocks/pcor/> — accessed 2026-09-20
- Procore Technologies (PCOR) annual cash flow statement and balance sheet — <https://stockanalysis.com/stocks/pcor/financials/cash-flow-statement/> — accessed 2026-09-20

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