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OKTA.OQ - Q3 2019 Okta Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Okta's Third Quarter 2019 Earnings Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Ms. Catherine Buan, Vice President of Investor Relations. Please go ahead, ma'am.

Catherine Buan - *Okta, Inc. - VP of IR*

Good afternoon, and thank you for joining us on today's conference call to discuss Okta's fiscal third quarter 2019 financial results.

My name is Catherine Buan, VP of Investor Relations at Okta. With me on today's call are Todd McKinnon, Okta's Co-Founder and Chief Executive Officer; Bill Losch, the company's Chief Financial Officer; and Frederic Kerrest, the company's Co-Founder and Chief Operating Officer.

Statements made on this call include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements regarding our financial outlook, our market positioning and benefits that may be derived from our recent acquisition. Forward-looking statements involve known and unknown risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their closest GAAP equivalents. For example, other companies may calculate non-GAAP



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financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation between GAAP and non-GAAP financial measures is available on our earnings release.

Further information on these and other factors that could affect the company's financial results is included in filings we make with the Securities and Exchange Commission, the SEC, from time to time, including the section titled Risk Factors in the quarterly report on Form 10-Q previously filed with the SEC. You can also find more detailed information in our supplemental financial materials, which include trended financial statement and key metrics posted on our Investor Relations website.

Now I'd like to turn the call over to Todd McKinnon. Todd?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

Thanks, Catherine, and thanks, everyone, for joining us today. Before we begin the call, I'd like to take a moment to recognize this day of memorial for the late President George H.W. Bush. We honor his presidency and lifetime of public service to our country, and our thoughts are with his family today.

Our third fiscal quarter was another outstanding quarter for Okta, with total revenue and calculated billings both up 58% year-over-year. We continued to invest across our business while improving our bottom line. Operating margin improved over 22 points. And free cash flow margin improved more than 18 points year-over-year, making us free cash flow positive for the first time. We also had a record quarter in terms of customer growth. We added over 450 new customers in Q3, bringing our total to over 5,600 customers. Even more exciting is the momentum with our largest customers. We saw 55% growth in customers with over \$100,000 in annual recurring revenue, which represents a record 100 net new adds in a quarter. This momentum is an indicator that identity is an increasingly strategic comparative for organizations in every industry and validates Okta's approach to helping organizations manage all their identities through our independent cloud platform.

As a reminder, we address 2 markets, workforce identity, the identities of employees, contractors and partners; and customer identity, the identities of our customers' customers. We closed a number of significant deals in the quarter. I'll highlight a few of them. First, Hertz Global Holdings, a car rental company that operates in 150 countries, is an exciting new deal for us. The company chose Okta to securely connect all of its employees to the hundreds of applications they use to run their business. Hertz will use our workforce identity products, namely Okta's Single Sign-On, Universal Directory and Multi-Factor Authentication, to provide a better and more secure user experience for its associates around the world and reduce IT help desk and administration costs.

Next, an international financial services company with over 750,000 members was a new customer identity and workforce identity win for us in the quarter. The company recognized that its outsourced identity solution lacked a full view of its customers and did not support its digital initiatives. They worked with Deloitte to find a single identity platform that could manage and secure both its members and employees. They selected Okta's customer identity products to provide personalized experiences for its members; and our workforce identity products, including Single Sign-On, Universal Directory, Lifecycle Management and Adaptive Multi-Factor Authentication to streamline employee access to workforce applications.

A noteworthy upsell in the quarter was the U.S. Department of State, who had initially purchased Okta for authentication for its more than 100,000 external industry partners, but will now expand to its entire workforce. The State Department evaluated multiple identity solutions to strengthen its security posture and support its transition to the cloud. We believe the State Department selected Okta as its enterprise-wide workforce identity solution because of our credibility across the government sector to secure identities and digital assets across a wide variety of users and technologies. Okta's Single Sign-On, Universal Directory, Lifecycle Management and Adaptive Multi-Factor Authentication products will provide 170,000 State Department employees, contractors and agency partners with secure, seamless access to web and cloud-based applications such as Office 365, ServiceNow, Box and AWS.

We are very excited about the customer momentum in the quarter. Not only are we seeing more deals, we're also seeing broader adoption of our technology. And we'll continue to innovate and expand on our platform. There are a couple of overarching takeaways I want to highlight from the third quarter.



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First, we are seeing traction with the investments we've made in our partner strategy, in particular, our partner ecosystem is growing significantly as the awareness around identity is increasing and the space is becoming better defined. Meanwhile, large players, such as Deloitte and VMware have recognized Okta as a vendor of choice for identity solutions, which further enhances our positioning in these partner opportunities. We're pleased with our momentum in partner deals in the quarter, including the U.S. Department of State and believe we are in the early innings of seeing upside from these relationships.

And second, we've continued to build our Zero Trust security framework. Last quarter, I talked about our acquisition of ScaleFT as an important step in furthering our position in Zero Trust security. We believe that identity is the foundation for enabling Zero Trust security, and we're encouraged to see that validated both by our customers and the industry.

Last month, Forrester Research published its first ever Wave evaluation of the Zero Trust security framework in which Okta was recognized as a strong performer and earned the highest possible score in the criteria people/workforce security, vision and strategy, and market approach. We're very pleased with our consistently strong results and the momentum we're seeing, and we think it's being driven by several factors. We believe significant technology transitions are pushing the market in our direction. First, every organization we talk to is on a journey to the cloud. Second, they're thinking about how to become technology companies and better engage with customers online or through custom and mobile applications. And third, security has become a priority at the highest level. As these transitions unfold, organizations are recognizing the critical role that identity must play in their environments. And while cloud, digital transformation and security are top priorities, most organizations are still relatively early in their journeys to realize their full potential. We believe Okta's opportunity will grow alongside all 3 of these transitions as they continue to mature over time.

The market is validating our belief that identity is the foundation for securely connecting people and technology. And we believe that Okta is leading in identity and winning for a few important reasons. First, we have a fundamentally different approach to the space than our competitors. The Okta Identity Cloud is a completely independent and neutral cloud platform for identity. Because our business isn't tethered to the success of specific applications, customers appreciate that Okta will let them choose and continuously adopt the best technologies for their business. Our customers think of Okta as an independent platform that helps them future-proof their technology investments.

Second is the Okta Integration Network. Because of the central role Okta plays for our customers, we strive to integrate to every technology those customers want to use with more than 5,500 prebuilt integrations to cloud and on-premise applications and advanced integrations, the network security providers like Palo Alto Networks, security analytics providers like Splunk and IT operations providers like ServiceNow. We believe the Okta Integration Network is our single biggest differentiator in the market. The breadth and depth of our integrations are critical, especially in this industry, because the kinds of capabilities that we offer are only as useful as the technologies they integrate with.

Many of the reasons our customers love Okta are the results of our long-term and continued investments in innovation in the Okta Integration Network, reasons such as the speed of implementation, the ability to roll out applications in days or weeks versus months or years, the ability to address a very complex set of problems with a simple and intuitive solution and the ability to keep pace with technology. And what we've seen as a result is a powerful network effect that is generating a ton of value for Okta, our customers and our ecosystem of partners. As we integrate to more technologies, we become more valuable to our customers. As we attract more customers, technology providers become more incentivized to integrate to Okta.

The third reason we're winning is that we're uniquely able to serve as the identity standard for our customers, because we offer a single identity platform for every type of user in an organization's ecosystem, from their employees and contractors to their partners and their customers. Increasingly, we're seeing customers adopt Okta as this single standard and retire legacy infrastructure along the way, including both longtime customers like Experian, Allergan or Adobe and newer customers like Major League Baseball, who recently presented at our Investor Day. They are able to manage and secure all of their identities in a consistent way from a single platform.

The last thing I'll call out that sets us apart is our customer-first focus. We think of customer success in a much broader way than most technology companies, even most cloud technology companies. For most, customer success is about making sure customers are successful on your platform, that they're able to successfully implement it and use it. This is, of course, true for us as well. However, since Okta is an enabling platform for people and technology, it has to be more. Our customers buy Okta to make the rest of their technology even better. For example, many use Okta



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to automate provisioning from their HR systems to downstream applications. Even more use Okta to roll out applications like Office 365 to highly distributed environments. Their metrics for success aren't just about being successful with Okta, they are about being able to automate provisioning through Workday to improve employee onboarding and offboarding or being able to roll out Office 365 to large global organizations in a matter of weeks. These are the kinds of success stories we care about most. And since we've done these kinds of implementations countless times, our customers are able to lean on our experience and expertise to ensure they're successful with Okta and the technologies we connect to.

In summary, the market is being driven our way as momentum in cloud, digital transformation and security are all converging on identity. And we're winning because of our independent neutral approach, the breadth and depth of the Okta Integration Network and our ability to offer one platform for every use case and our customer-first focus.

Thanks again for your time today, and I'll now turn it over to Bill to walk through the financial results.

William E. Losch - Okta, Inc. - CFO

Thanks, Todd, and thanks again to everyone for joining us. I'll first go through our results for the third quarter of fiscal year 2019 before discussing our outlook.

We had another strong quarter, with revenue totaling \$105.6 million, growing 58% year-over-year. Subscription revenue totaled \$97.7 million in the third quarter, an increase of 58% year-over-year, representing 93% of our total revenue, up slightly from 92% in Q3 last year. Professional Services revenue was \$7.9 million, an increase of 56% over the same period last year.

Revenue from outside of the U.S. grew 58% year-over-year and represented approximately 16% of our third quarter revenue, consistent with Q3 last year. We continue to view our international business as a long-term growth driver, and we're investing strategically to foster this incremental growth opportunity.

Moving on to billings. The current portion of calculated billings growth for the quarter was 57% year-over-year. Total calculated billings for the third quarter totaled \$124 million, an increase of 58% over Q3 last year. We're very pleased with our calculated billings growth and the underlying demand that continues to drive our business. Contributing to our high billings growth rate was better-than-expected bookings linearity in the quarter and the beneficial timing of certain invoices.

Our growth has benefited from momentum of new customer additions as well as upsells within our customer base across all of our segments. The total number of customers at the end of the quarter was over 5,600, up 42% year-over-year, a slight acceleration from Q2. We saw broad additions across our enterprise customer base and added a record number of net new customers with annual recurring revenue greater than \$100,000, up 100 from the previous quarter to 937, representing a 55% year-over-year growth.

Our dollar-based retention rate for the trailing 12 months ended October 31 remained strong at 120%, demonstrating the ongoing success we are having expanding within our existing customer base.

Before turning to expense items and profitability, I would like to point out that I will be discussing non-GAAP results going forward. Our GAAP financial results, along with the reconciliation between GAAP and non-GAAP results, could be found in our earnings release as well as the supplemental materials posted on our Investor Relations website.

Subscription gross margin continues to be strong at 82.2%, up 180 basis points versus the third quarter last year. Our Professional Services gross margin was negative 3.2% compared to negative 30.6% in the third quarter last year, primarily due to strong utilization and improving operational leverage.

Total gross margin was 75.8% in the third quarter, up 380 basis points year-over-year. Gross profit was \$80 million, up 66% year-over-year. Our gross margin represented a new record high as we continue to scale our platform.



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Turning now to operating expenses. Sales and marketing expense for Q3 was \$50.7 million compared to \$43.7 million in Q3 last year. This represents 48% of total revenue, an improvement from 65% in the third quarter last year. This year-over-year improvement was aided by the expense impact due to the timing of Oktane, our annual customer event, which was held in Q3 of last year, but in Q2 this year.

R&D expense in Q3 was \$21.3 million compared to \$14 million in Q3 last year. This represents a growth rate of 52% as we continued to invest significantly in the Okta identity platform and our Okta Integration Network. At the same time, R&D as a percentage of revenue remained fairly consistent at 20% compared to 21% in Q3 last year.

G&A expense was \$14.5 million for the third quarter compared to \$9.9 million in the third quarter last year. G&A was 14% of revenue, an improvement from 15% for Q3 last year.

Our total headcount was 1,473 as of October 31, growing 29% over Q3 of last year. We are adding headcount across the board to support the growth of our business and expect headcount growth to continue to accelerate in the fourth quarter as we further invest in our go-to-market initiatives and innovation across our platform capabilities.

We remain focused on durable growth, and as a result, we've seen continued improvement in our operating margin, while maintaining strong top line growth. Operating loss in the quarter was \$6.5 million, which is a margin of negative 6.1% compared to a negative 28.9% in the same period last year, a significant improvement of over 22 points.

Net loss per share in Q3 was \$0.04, with 109 million basic shares outstanding. This compares to a net loss per share in Q3 last year of \$0.19, with 95 million basic shares outstanding at the time.

Operating cash flow was positive \$6.4 million in Q3. Operating cash flow margin was 6.1% compared to negative 14.2% in Q3 last year, an improvement of over 20 points. Our top line outperformance and continued margin improvement resulted in positive free cash flow in the quarter for the first time. Free cash flow came in at a positive \$1.4 million in the quarter. Free cash flow margin was 1.3%, an improvement of over 18 points compared to a negative 16.8% for Q3 last year.

We are particularly pleased with this, given the impact we saw with CapEx in the quarter due to our ongoing headquarter office expansion. While we're encouraged by our strong cash flow performance in the quarter, we continue to expect to see variability in free cash flow margin due to this expansion along with ongoing fluctuations in working capital.

Turning to the balance sheet. We ended the third quarter with \$546 million in cash, cash equivalents and short-term investments. This includes the net proceeds of \$307 million from the convertible senior notes we issued in Q1.

Moving on to guidance. For the fourth quarter fiscal 2019, we expect total revenue of \$107 million to \$108 million, representing a growth rate of 39% to 40% year-over-year; non-GAAP operating loss of \$12.5 million to \$11.5 million; non-GAAP net loss per share of \$0.09 to \$0.08, assuming shares outstanding of approximately 110 million.

For the full year of fiscal 2019, we now expect total revenue of \$391 million to \$392 million, representing a growth rate of 52% to 53% year-over-year; non-GAAP operating loss of \$49 million to \$48 million; non-GAAP net loss per share of \$0.37 to \$0.36, assuming shares outstanding of approximately 107 million.

Although we are still early in financial planning for fiscal 2020, I would like to provide a preliminary view as you look at your models for next year. We currently estimate revenue for fiscal year 2020 to be between \$510 million and \$520 million, representing a growth rate of 30% to 33%.

In summary, I'm pleased with our consistent execution and the results we reported this quarter. We remain committed to durable growth, as outlined at our Investor Day in October. We see this growth coming from customer momentum, partners' channel traction, international expansion and innovation in our platform and network. And particularly this quarter, we're excited about the continued traction we see across our partner ecosystem. We remain confident in our positioning and long-term strategy.

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As Todd mentioned, we see benefit from the market tailwinds that are elevating the need for identity. These tailwinds, in addition to the success we've seen with our leading platform, Integration Network and customer-first approach, continue to put us in a winning position. We're excited about the opportunities ahead and look forward to closing out the year on a strong note.

With that, Todd, Frederic and I will take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question today from Sterling Auty with JP Morgan.

Sterling Auty - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I believe Microsoft Azure Active Directory had a couple of notable outages in the recent past here. And I'm just wondering if that's actually changed the kind of conversations or the number of discussions driving more interest in your solution or is it even having an adverse effect where companies are perhaps nervous about identity in the cloud?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

Sterling, it's a good question. We're having so many conversations with so many customers, and they all follow kind of the same key big trends. One is just customers need help adopting more cloud. They're thinking about apps, Office 365, Google apps. They're thinking about infrastructure, Amazon, Azure. They're thinking about business apps, Salesforce, Workday, ServiceNow. And there is lots of different -- the reliability, as you mentioned, is one thing. But there is just a whole host of things they're trying to figure out. And they're trying to figure out security to make sure these apps are accessible and secure. They're trying to figure out how to get the most business benefits out of it. And they are increasingly realizing that identity is at the key to a lot of that. If you want to do secure deployments, if you want to do quick deployments, if you want to do deployments that would get the business benefits, you have to have your identity story straight. Vis-à-vis Microsoft specifically, one thing that's interesting is that because of our breadth of customers now over 5,600 customers and many, many of those customers using some technology from Microsoft, we actually get visibility into the reliability of Microsoft's products. So we actually -- it's not just in conversations with customers, it's actually in conversations -- with prospective customers, but it's conversations with existing customers, talking about what was the extent of this outage, can you understand how broadly the impact was. So we're able to help customers understand the breadth of some of the technology choices they are using and the pros and cons. And that's the benefit of being this independent and neutral platform. So it is -- I would say, it is something we see, but in the grand scheme of things, it's one of the many conversations we're having.

Sterling Auty - *JP Morgan Chase & Co, Research Division - Senior Analyst*

All right, great. And then one quick follow-up on Zero Trust. How should we think about what portion of the Zero Trust architecture that Okta will ultimately provide? And I guess, what I'm thinking about is it seems like in some of these models you will have some of the cloud gateway companies playing a role as well. So is that an area where we should look for increased partnership from Okta moving forward?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

It's a good question. So Zero Trust is a term in the industry these days -- it's a fairly recent term in the industry, which basically means don't trust the network, give the user the same experience regardless of whether it's an internal network or a network from home or a network from a coffee shop, give them the same experience, same great ease of use, and most importantly, same great security. So many times customers aren't asking for Zero Trust per se, they're asking for how do you make this all secure. And they are saying, we love the cloud, we're trying to build better



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customer-facing applications, but security is paramount and we need help securing that all. And what they're increasingly realizing is that identity is the key to that. You have to control identity to give a really great user experience and a secure user experience. So now Zero Trust is the industry trying to put a design pattern in place around what this truly looks like and what are the different components you need and what do you need on the client and what do you need on the device, what do you need in terms of, as you mentioned, gateways and other things. And people have different opinions, but one thing that's becoming very clear is that you have to have identity covered well and you have to have a good identity backbone to do security and to do Zero Trust. So I think what you'll see is, and you see it in our results, that identity is prevalent and pervasive and especially as customers do more cloud, do more -- and want to be more secure. And then the actual details of that, whether you need a gateway or whether -- how the VPNs fit in, those details will be figured out over time, but identity is going to be at the core.

Operator

Next we'll hear from Terry Tillman with SunTrust.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Maybe the first question, because we heard a lot in your prepared remarks about partner momentum. I know earlier in the year, it sounded -- it looked like you all kind of refined your partner program with Partner Connect and maybe redesigned it. So I don't know if some of that's behind kind of this amped-up success with partners. But maybe you could just talk about some of things structurally you've been doing around partnering and then maybe more specifically VMware and Deloitte, a little bit more specificity in terms of the momentum with them.

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

Yes, absolutely. This is Frederic. Happy to talk about that. I think you bring up a very important point, which is the importance of partners in our business. It's something we've obviously been working on for a number of years. These things are not things that you can just turn on overnight. I think you highlighted a couple of examples of some of the big categories that I would point to, in that we see a lot of momentum growing in our business. The first ones are the global system integrators. You mentioned Deloitte, but also some of the other folks that are out there as strategic advisers and implementers to large enterprise and public organizations. Deloitte is doing very well. I was just actually in Europe last week with a number of our customers opening up our France office and had an opportunity to speak with some of the senior partners there. And they are as excited in Europe as they are in North America to work with us, both on the security implementation side, but also on the large digital transformation projects that they want to be involved with. The second piece are very large technology partnerships that are starting to come into play. Again, you mentioned a very important one, VMware. For those of you who might not remember all the details, we announced an important partnership that we started last May at Oktane with VMware with first technology and business integrations between our teams. We furthered that at VMware's VMworld, and VMworld Europe, Barcelona, in early November where we talked about the second level of [now] technology integration as well as extending that partnership out to VMware's channel. And again, in Europe last week, I heard from a lot of folks in the VMware channel who were very excited about this partnership as well as customer and prospects excited at seeing us work with such a large and important company and an important piece of technology for them. And then finally, I would just point to the Okta Integration Network, which continues to be the de facto standard in the industry for the best and broadest, deepest integrations across thousands of not only applications, but pieces of infrastructure, networking gear and everything else with dozens of advanced integrations that are really benefiting our customers where they find these solutions and drive a lot of value. So we are seeing a lot across all the different pieces of our partner ecosystems, which we continue to invest in. But like our business, these are early days and the opportunities ahead are very large, and we're excited to keep building upon these results.

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

And I would add, Terry, that the programmatic things that Freddy talked about are very important. But one thing I've noticed is that the business results we're showing are really motivating the partners. So if you talk about 100 new deals over \$100,000 in ARR, partners notice that as well. And they want to be onboard with this -- the latest trends and the leader in this industry and that's the business success and the momentum in the market has driven the partner momentum as much as anything else we've done programmatically.



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Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

That's great. And I guess, just my quick follow-up is on ThreatInsight. Todd, I know earlier in the year, you all kind of unveiled kind of where you could go with all this analytics horsepower. It looked like the way some of this could work is you have to buy the higher price point SSO or the MFA product to get access to it. But what can you just do in terms of an update on ThreatInsight? How it's being received and just where you are with that?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

ThreatInsight is essentially -- it's really important for the value it delivers to customers. And it delivers value in a way that's pretty special. Because we see so many customers and so many logins, we can detect threats across the entire ecosystem, and then we can expose that threat intelligence back to individual customers and let them configure policies in Okta that would make certain decisions based on those threats that are relevant to an individual customer. So it's -- because we see the data, we can make the product more valuable for individual customer, and it's one of the benefits of being on the cloud platform. ThreatInsight is going very well. We're continuing to roll it out, and uptake has been very positive. We're working with -- getting a lot of feedback from customers not just on ThreatInsight, but in the overall policy engine and continuously innovating around the capabilities as we do for all of our features. We have this model -- this cloud model, which allows us to continuously release features and functions. But also, the data changes all the time. So as threats emerge, it's updated real-time in ThreatInsight. So it's a very powerful capability that's been well received by the customer base.

Operator

We'll now hear from Alex Henderson with Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

I was hoping you could talk a little bit about the competitive landscape relative to Cisco's acquisition of Duo and to what extent you're seeing any change in the behavior of customers that they've been associated with or to what extent, as you're going through your competitive processes, you are taking more business from that channel or any change in that dynamic.

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

We haven't seen a change. The big picture is that there's -- there are a lot of deals. I mean, the market is really accelerating. There are a lot of deals. And we -- the overall competitive trends are very consistent with what we've seen. Our run rates have been consistent for several years with respect to all the competitors. The competitors are different, like it's very different when you're competing with someone like a Microsoft, where the dynamic is customers, they really don't want to be locked-in to Microsoft. They're worried about lock-in to a certain platform, particularly Microsoft. So there, it's about this broad identity platform that can support multiple technologies, give the customers choice and freedom from any kind of being driven down a certain path. That's powerful to them. Different competitors are different. So maybe a legacy competitor, it's all about a product set that's not being updated or not being migrated to the modern environment and they see us as their pathway to the future, their pathway to the cloud, their pathway to digital transformation. Or a point competitor maybe that just doesn't have the breadth of coverage and can't get any deals and can't cover the field. Or maybe it's just more of a niche solution, not a broader platform. So I think back to your question about Duo and Cisco, first of all, you asked the question about competitive, but I would first say is that we're very strong partners with both Cisco and with Duo. Duo, we have a seamless integration with Duo on our platform. We have a very seamless integration with Cisco, their firewall products. So we're very, very happy with those partnerships, and those continue to be very productive. On the competitive side, we do have some product overlap with Duo, and we continue to compete with them. And I think it's natural that you're going to see -- anytime there is a big acquisition like that, you're going to see some disruption in terms of the execution of them independently. And I think we are seeing that to some degree, but we think that the partnership will continue. And where we compete, we'll compete and the environment will be consistent over time. And the big picture, it's -- there is a lot of value to be created for customers, and we're busy trying to capture and deliver that as much as possible.



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Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Yes. So one broader question. So clearly, as we're moving to a world where the center of gravity of security is moving out of the enterprise into the cloud, the architecture of security delivery has to change. And I assume that no single company is going to be able to provide the full platform. In that environment where we're federating multiple security clouds together, does Okta end up being the connective -- the primary connective tissue between them? And if that's the case, how do -- what role do you play in the policy piece of that?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

Well, I think -- I think if you think about the definition of the word platform, at least how we think about it, it's -- a platform by definition is a set of underlying capabilities that then other people build on top of to provide the full set of value to the ecosystem. So if you think like Windows, Microsoft couldn't build every application. So they built the Windows platform, and then the app developer community built all the applications. If you think about -- there is other examples, iOS, right? Apple couldn't build all the apps into iOS. So they opened up this platform, the App Store, and then developers built this. We think of -- when you say the entire security ecosystem, we absolutely agree. We think that no one company can build it all. It's all about choice for the customers. But then you get back down to like what is the platform and what is the right thing to pivot off of to be the basic thing you need to have a handle on that then other people can build around. For us, that's identity. We think by being the system of record for identity, we can be the foundational platform and other people can build around us. So the way we think about the world is we're the identity platform, and then all of these other adjacent categories will plug into us and provide the application "for our platform." So that's how we think about the world. And I think it's -- if you think about look at -- looking at how we're investing in the product, it's consistent with that.

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

I think, Alex, just to add on that. You see that also from a customer perspective. I mean, what they say is they're very excited about a lot of the advanced integrations that we have in the Okta Integration Network, because it allows them to leverage the investments that they've made. For example, in Palo Alto Networks, get it pre-integrated with Okta, and that way they can get more value out of both of the solutions. The Palo Alto Networks firewall can talk to Okta and back and forth. So you actually get more information by connecting them. In fact, we have a number of -- and I see this more and more with our large enterprise customers. A good example is a large financial institution, I think, in Texas was the first one to do this. They are now actually writing into all of their new technology contracts that the solutions they're buying must be pre-integrated to Okta. So what you're getting is not only the existing technology vendors know that they need to partner, but the next generation of security vendors are coming to us and saying, clearly, you're the new identity standard, this single identity platform, it's foundational, we want to make sure we're pre-integrated to it. And you really see that flywheel spinning, which I think is going to be very exciting for customer success in the times ahead.

Operator

Next we'll hear from Richard Davis with CG Financial.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD & Analyst*

So maybe I think a remix on Sterling's question a little bit. So when do you guys think we're going to get to the point where you and maybe another modern security vendor or 2 will allow Chief Security Officers to save money and kind of de-provision or stop spending on security systems that -- when I talk to these guys and gals, they're just like, we know we're over-insuring with stuff that's repetitively redundant, so to speak? Do you think there is a point where we get to that point where you can walk in and go, "Look, it's a hard dollar ROI, you can like cut off 6 different things"?



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Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

I think that -- it's an interesting question. From our perspective, it's about the choice, right? And it's about the choice to pick the apps, the infrastructure, the platforms, the security tools that are best for the customer. I think in some cases, that's a consolidation of spend around certain vendors. In some cases, it's branching out into new areas for some business driver or business growth. I think it's the flexibility that customers need. I think as many customers I talk to that want to consolidate and cut down on vendors, many more are branching into new areas and want to expand. So I think it's got to have flexible -- got to have flexibility to go both ways. But I do think that you have to -- and I think you see this in all of the super-successful companies. You have to have -- you have to manage something that is -- something that the customer can pivot around, whether it's -- with us, it's the person and the identity. With other vendors, it's different things. But we're very confident that our strategy of being the system of record for identity is the right strategy and give customers the flexibility to take the technology in the way it needs to be best for them.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD & Analyst*

Got it. And then just a quick follow-up. So we're seeing identity management kind of evolve from password reset companies to multifactor to adaptive in the space. So have you guys ever said like how much penetration the -- whatever, the highest part of Maslow's hierarchy of identification is there? Is it 10%? Is it 5% of the -- I mean, you're at the foothills. Have you looked at that on that basis at all or not?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

I think it's -- I don't have the numbers. I think it's my impression from customers I talked to and so forth, it's -- the super-sophisticated, machine learning driven is very, very rare. I think most customers are trying to get things integrated and get the right security policy on the right resources. I think the promise is longer-term, more autonomous, more machine learning type things that are kind of the truly adaptive for everything. But most customers just want the flexibility to connect all their technology and then do policies appropriate for the right resources based on the risk level. And I think that it's kind of -- people know it's a good idea. The reason it's hard is because that's not integrated. And one of the things we're doing is trying to bring that pre-integrated approach to it with our -- the Okta Integration Network. And we think if we can integrate everything, we can give customers this basically a fighting chance to do the right policy on the right resources, and that's going to make things much better in terms of ease of use for the users, but also for security.

Operator

We'll now hear from Heather Bellini with Goldman Sachs.

Heather Anne Bellini - *Goldman Sachs Group Inc., Research Division - MD & Analyst*

I had 2 for you guys. I guess, the first one would be you continue to just have a really good improvement in the net new customer account with over \$100,000 in spending, \$90,000 last quarter, \$100,000 this quarter. Is something changing in terms of the number of products that they might be purchasing upfront for the first time? Is it potentially that they're just adding -- they're doing larger deal sizes of a single product than maybe what you were seeing before? I just was wondering if you can give us some color there. And then I had a question -- I know someone asked about some of the issues that Microsoft had over the last few months. But I was more wondering, when you see headlines like the one with Marriott last week, does that ever -- do you see breaches like that ever causing kind of a spike in deal activity or at least kind of RFPs for you guys?

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

Thanks, Heather. I'll take the first question regarding what we're seeing in that momentum. I think it's a couple of things. First of all, obviously, we're very fortunate, right, in that we're addressing 2 large markets, workforce identity management and customer identity management. So what you see is you see customers that can now start in either of those large 2 markets with any of our 5 different products. And as you start working with larger and larger organizations, whether they are governmental organizations or private companies, they find more and more ways to use the



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product, so they could start, for example, with Multi-Factor Authentication for a customer situation and then they could find ways to deploy it internally for workforce. So there is a lot of points where they can land and expand. Number two, I think you're starting to see us just -- there is a natural momentum between as we roll out 40 new releases a year in our agile software development model, there is a lot more features and functions coming all the time and there are more and more advanced use cases we can help customers address. At the same time, you're starting to see larger and larger enterprises turning around and saying we're going to have a cloud-first approach. Last week when I was in Europe, I remember meeting with a large utility a couple of years ago, and they said, "We're never going to have anything in the cloud." And that same utility, one of the largest utility companies in Europe started the conversation last week with, we now have a cloud-first mandate across the business. And so you're just seeing much larger organization saying we have to get on this journey to the cloud, we have to undertake a digital transformation. And so the convergence of us being able to provide more solutions for them and the enterprise finding more and more ways to leverage the service I think is what you're starting to see drive those results. By the way, that's the same reason that organizations like Deloitte are finding more and more interest in working with us, because obviously, they're working with the largest organizations in the world. What I would say, though, it's very early. So I think that in this transformation, our best days by far are ahead of us in helping these large enterprises. We're very happy with the results we have, but I think that it's going to be very exciting in the times ahead. And then on the second piece regarding Marriott specifically, we can't point to anything this week, were there more inbound phone calls from organizations looking for that. Certainly, it is unfortunate whenever you read one of those headlines for those organizations, because it's a very tough position to be in. But yes, I think it highlights a couple of things. First of all, it highlights the fact that every company has to think about how they're going to modernize their technology and how they're going to prioritize security in a new way, whether you are a high tech company, whether you're a retail company, whether you're in the hospitality industry, it applies to every organization. Number two, I think it also highlights what we all know, which is there is a significant dearth of advanced software developers in the world, in North America and specifically in security. And you can imagine that for a lot of these large companies, it's hard just to attract all these advanced security software developers to their companies. And then finally, identity is only now starting to become the center. People are now trying to come around to the fact that it is so critical. But it's taken a while. And certainly, a lot of these companies have had these resources available. So Marriott has been out there with their programs for many, many years. Now it's time to modernize them. I think I would just point to what we just said with the Albertsons customer press release that went out today as well, a very good example of a company that's been around 80-plus years, they have had loyalty and rewards programs for a long time, but they realized it's time to modernize. And so they started working with us a couple of quarters ago, and today, there's 30 million consumers accessing Albertsons Safeway and all of their customer identity management resources on a weekly basis. I think those are the kinds of trends that you're going to see more and more of in the times ahead. And certainly, we think that we're very excited about the opportunity to help a lot of customers with those opportunities in their businesses.

Operator

Next we'll hear from Shaul Eyal with Oppenheimer.

Shaul Eyal - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

I wanted to ask about some of the clients and contract announcements you've made, probably starting with Albertsons, appears to be a sizable customer. I think you've indicated 30 million customers/users from their perspective interacting on a weekly basis. Was that a displacement, probably not, but just want to hear your thinking about it. And also maybe talk to us, Todd or Freddy, about the process, maybe the time frame it took from PoC to PO. And probably what are the other long-term opportunities you can see with this specific client? And then I have a question on the State Department contract.

Jacques Frederic Kerrest - Okta, Inc. - Co-Founder, COO & Director

Yes, absolutely. Thanks for the question, Shaul. I'll start with Albertsons. So your first question was about what we displaced there. I mean, Albertsons, like a lot of large organizations, has been built up over the years through M&A, right? So if you look, they have today dozens of different properties in food and drug retail. And so as these different organizations have evolved and as Albertsons has rolled up more and more of these different brands, each of those different companies has come with their own set of infrastructure. So in fact, there was legacy infrastructure, but not just at Albertsons proper, at Safeway and all the other brands. And so what you have is this sprawl where they have many different installations. Some of them might be homegrown. Some of them might be FCA. Some of them might be Oracle or IBM. And so what happens is you as an end customer,



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it's a bad experience for you, because you might have an Albertsons login and a Safeway login. You don't get the value across both of them. They don't know what you're doing. And then at Albertsons obviously, they want one view of you, so they know where you're purchasing across all their properties both on the web, on the mobile, physically inside the stores. And so by transforming across all those different pieces of on-prem infrastructure moving to a centralized cloud platform like the Okta Identity Cloud, putting all of those different resources inside one central database -- they're using our Okta Universal Directory -- and allowing their customers to have a much more seamless experience is enhancing the customer experience, but it's also obviously on the back-end, providing Albertsons with much better visibility into what their customer is doing across all these different properties. And that is the true value. So absolutely, we did displace legacy technologies, but it wasn't just one piece, it was undoubtedly many pieces that they were having a lot of trouble separating, because they've been around for 10, 15, 20 years inside different data centers and it gets very, very complicated. On your second question around the time to work with the customer, I think you'll probably be pleasantly surprised that Albertsons has been a customer of ours for less than 4 quarters. I can go back and look exactly, but certainly, I think it was since the beginning of this fiscal year where they signed up. And I think that time-to-value is something that you really only get with a modern cloud platform. The fact that they were able to roll out 30 million customer visits on a weekly basis across all these different myriad properties, both physically, both on the web, on mobile applications and the fact they were able to that in a matter of a couple of quarters, that's how you get this customer success. And it's because of the foundational platform that we have in there that you start seeing they get very quick ROI, that TCO is easily understandable, and very quickly, they go from us helping them solve one specific problem where we become then the identity standard and we become pervasive across their entire organization and identity really becomes this foundational platform they get a lot of comfort around and they can build on. So that's specifically around Albertsons. I believe you also had a question, you said a follow-up question around the State Department.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Yes -- no. So Freddy, this is really great, great color. And probably on the State Department, that comes under the federal verticals. Talk to us a little bit maybe specifically about this product, this contract, but also how do you see the opportunity on the federal vertical and what are you guys doing to probably accelerate that? Without a doubt, I would imagine such a contract should entice and accelerate the appetite to do much more. You get the State Department, you know these guys, they all talk to each other. You can get a great reference here. And the sky could potentially be the limit here, and that's in the federal vertical.

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

I certainly hope that you're right, Shaul. So we're working on that every day. In the meantime, I'll give you some specific details around that. Look, I think public sector, very much like the question around partners earlier on the call, this is not something you can turn on overnight. I mean, this is something we've been working on with a federal team in place, I think, for coming over 3 years now. It's not just at the federal level, but we do very well at state and local. And again, you see all sorts of organizations seeing these major imperatives of the journey to the cloud and how they're going to become technology companies. I think when you think about public sector, and the U.S. State Department is one example, it's a good one, but it's just one example. Certainly, the federal fiscal year ends in September, which coincides with our Q3, which is why we're not terribly surprised to see some good business from the federal sector as they wrap up their year and they look to the year ahead. But I would highlight that we've been working on a lot of the underpinnings for our platform and to make it viable and a good, strong, viable, secure, reliable, scalable performance solution for the government agencies for a long time. For example, we have been HIPAA compliant for quite some time. We are now already FedRAMP Moderate certified on the platform, and we also have native support for things like PIV and CAC, which allows the government to use a lot of our Okta workforce products. And then finally, you see a lot of big initiatives that are happening inside the government. For example, they have the Modernize (sic) [Modernizing] Government Technology Act, which establishes funds to improve federal technology. You also have the White House, which is pushing this Cloud Smart strategy, with anything that can go to the cloud should go to the cloud. So I think these are just some of the examples of what you see. And obviously, we're very fortunate that we can help these organizations make those moves, and we're very happy with the success we have had. But again, I think the opportunity in the times ahead is very good. Over the last couple of years, you've seen us work more and more with government agencies, organizations like the Department of Justice, the Centers for Medicare & Medicaid Services and now the State Department. So certainly, we're starting to get good traction. It's important to make these customers successful, which we do. But we're very excited about the opportunity ahead, and I think it's, again, very early days and we're excited about what we can possibly do in this segment, so.



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Operator

Next we'll hear from Pat Walravens with JMP Securities.

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Senior Research Analyst*

Todd, can you walk us through just sort of at a high level the steps that you're taking to make sure bad guys don't breach the Okta network?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

It's a -- yes. I mean, it's a big focus for us. We -- first of all, the main thing that customers -- when customers think about Okta, the main thing that they are trying to solve for is combining both ease of use for their end users and security for their own application and services. So they see Okta as a way to make their own technology more secure. And whether it's making sure that accounts are provisioned at the right time, making sure that the right people actually have access to the right services at the right time, making sure that there is the right amount of authentication, whether it's a single password, whether it's multifactor, whether it's a certain policy, all that makes a tremendous amount of improvement in how things are easy to use and then how things are secure. And if they're building a customer-facing site or mobile app, you're doing all that, while at the same time increasing their time-to-value and their productivity of the developers that they have to spend to build that thing. So obviously, the foundation all that is that the Okta service itself is secure. And the -- we've kind of -- that's what we've hung our hat on. And by investing a tremendous amount in the basic architecture, the processes and procedures, the technology reviews, the redundancy, it's something that it has to be built in from the ground up, it has to be consistently followed for years and years and years. It has to be part of the culture. It's something that's very, very hard to replicate. And it's not only a technical thing, but it's also a communication thing. And we have this conversation with customers. And whether it's a customer that's learning about us for the first time or whether it's a customer that's expanding their usage with us, we're very good at talking to them about this in a very open and transparent way, so they can understand what we do, they can understand how we mitigate risk and they can understand why it's kind of hard to replicate and something that's very valuable to them as they try to transform their technology.

Operator

Next we'll hear from Gray Powell with Deutsche Bank.

Gray Wilson Powell - *Deutsche Bank AG, Research Division - Research Analyst*

Sorry, can you hear me?

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

Loud and clear.

Gray Wilson Powell - *Deutsche Bank AG, Research Division - Research Analyst*

All right. I'll be quick. So definitely seems like you're all seeing an uptick in the adoption of MFA this year. Just ballpark, where do you think overall industry adoption is or what stage do you think it's in? And then how do you feel about the growth of the product set over the next 12 months versus the last 12?



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Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

I think Multi-Factor Authentication is, the stage it is -- everyone knows it's a good idea. I think it's still too hard to roll out, in general. I think we're trying to make it easier by making it pre-integrated, by connecting it to our policy engine, by delivering it as a cloud solution. So we're getting better. But I think there's a lot of -- the industry as a whole has to move from -- everyone knows it's a good idea to having kind of this broadly deployed multifactor connecting to a policy engine and we're trying to help. I think product innovation is critical to us, and we're very excited about what's ahead for us in terms of product innovation and releasing new capabilities. And we're going to have -- I encourage everyone to stay tuned. We have a customer conference coming up in just 3.5 months and we will have a ton of announcements there.

Operator

We'll now hear from Jonathan Ho with William Blair.

Jonathan Frank Ho - *William Blair & Company L.L.C., Research Division - Technology Analyst*

I just wanted to start out with maybe the international opportunity and where -- maybe where you see the most opportunity to leverage investments as well as maybe how the challenges differ in the international markets.

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

Yes, sure. Nice to hear from you. Happy to chat a little bit about that. I think the first thing is we're very excited about the opportunity in international. And I think that you're starting to see the results speak for themselves. That business is growing and it's growing fast. I think there's a lot of opportunity in terms of not only the customer interest for what we do, but also in working with a lot of these channel partners, because those markets are much more fragmented. And obviously, you have dozens of countries in Europe, Asia Pacific is the same. And so to the question about partners that we had earlier, one of the things that we spent a lot of time on over the last 12, 24 months is really making sure that we have the right partner programs with the right incentives, making it very easy for our partners to adopt our products and help distribute them in the market. I think you're going to see more and more of that. We've also historically made the right investments ahead of time that I think are now bearing fruit. So for example, we have had data centers in Europe where they can fill over data to a second data center in Europe without ever coming to North America. That's a solution that's been out there for quite some time. We're in the process of implementing the same in Asia Pacific to, again, give customers the comfort that they can keep their data in region if they're interested, and again, with very high levels of control, security, reliability, availability. And I think some of those things are very important. At the same time, you've also seen us continue to invest in expansion of our offices. Our office in London has continued to grow over the last 4 or 5 years, and we've continued to take on more office space there with opportunity. I mentioned that we opened formally our Paris office last week. We've had an office in Sydney for some time, and we're continuing to invest there. So I think the opportunities in international are early, they're exciting, they're big, and they are huge opportunities for us in the years ahead.

Operator

Our final question will come from Rob Owens with KeyBanc Capital Markets.

Robbie David Owens - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

In under the gun. Kind of feel like now I can take as long as I want, too.

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

The floor is yours, Rob. The floor is yours.



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Robbie David Owens - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Want to drill down into -- a little bit into the international financial services win, both on the workforce ID side and the customer ID side. Just, relatively, where you get more dollars? Is it on the workforce side or the customer side, as you see some of these guys bite on both sides of the apple?

Jacques Frederic Kerrest - *Okta, Inc. - Co-Founder, COO & Director*

Yes, happy to talk about that, Rob. I think that -- I think the one thing we should talk about is what's happening today. And then I think we should talk about the trends and what we see happening in the future. Look, today and as evidenced by our business, we started with workforce identity management, so the first. We're coming up -- wrapping up our 10th year of business, which is great. Our first 5 years of business, we basically only had a workforce identity management product. Now why is that? Well, workforce identity, formerly known as enterprise identity, is something that's well known. It's been in the industry for 20, 25 years, legacy software vendors, Oracle, IBM, CA have had solutions here for the days of homogeneity when you were an IBM shop or an Oracle shop. And so it was a well-understood kind of need as we came into the market. So if you look at our first 1,000 customers, all they could buy actually was workforce identity. Now that's great and that's going to continue to grow, and that's a big market and we're barely scratching the surface. And you're going to see more and more workforce identity business in the years ahead. What's happened over the last few years is customers have started to say, hey, I've built this customer identity management infrastructure myself in the past, it's getting complicated. We talked about examples like Marriott. Security is important. Password reset flows, registration across devices, multiple e-mail addresses, these are very complex piece of technology for companies to build themselves. So they've started using solutions like what we have in the customer identity and access management in the Okta Identity Cloud. So it is a newer part of our business, right, also growing very quickly. But what's exciting is in the times ahead, if you think about a large organization like Dignity Health, which is a customer of ours, we can help them with their workforce, obviously, which is tens or maybe hundreds of thousands of employees in certain cases. We have a set of products. They're very well suited. There is a lot of use cases for them. But in -- now in the customer identity side, as they put more and more online, as they digitize more and more of their business, there is more and more constituents that an organization like Dignity Health needs to interact with. For example, they could have patient portals that you and I go and pay our bills on. They could have physician portals where physicians come and get information on patients. They could have vendor or supplier portals where they talk about their supply chain. So whereas an organization could have one large workforce opportunity for us to help them with, they could start to develop more and more of these customer identity management opportunities as well. And that's why I think you see the people have very good ideas on how large the market is for workforce, which is very large, and they're starting to develop those ideas around customer identity management. So that's a long-winded way of saying, today customers can land with either workforce or customer identity with either of our 5 products. They find ways to cross-sell and upsell themselves because of our very high customer dollar base net retention rate of 120%. But in the times ahead, I think it's a tossup on which of these 2 large markets are going to continue to grow faster. A lot of opportunity, and obviously, we want to be able to help the customers with either one. It's certainly something that we're going to continue to keep an eye on in the times ahead.

Operator

That will conclude today's question-and-answer session. I'll now turn the conference over to Todd McKinnon for any additional or closing remarks.

Todd McKinnon - *Okta, Inc. - Co-Founder, Chairman & CEO*

So we appreciate the time today. We are excited about our progress this year. And -- but the most exciting thing for us I think is that we're still very early in these big trends, where this trend of cloud adoption we've been talking about it for a long time. But when you look at organizations around the world, whether they are large companies, governments, international markets, cloud is a big transformation that's going to take many, many years ahead and we're going to be there to help customers along the way.

Same with digital transformation, that's a continuously evolving thing. And we're very excited that identity is the core of that, and it's going to be a growth driver for years ahead.



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And finally, security is just timeless. So while we're excited about the results, we're more excited about the future potential, and we're working hard every day to make sure we capitalize on this. So thank you very much for your time, and we look forward to seeing you on the road or talking to you on the next quarterly call.

Operator

That will conclude today's conference call. Thank you for your participation. You may now disconnect.

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