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OKTA.OQ - Q2 2018 Okta Inc Earnings Call

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

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

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for joining today to discuss Okta's second quarter 2018 financial results. Today's conference is being recorded. I'd like to turn the call over to Catherine Buan, Vice President of Investor Relations. Ms. Buan, please go ahead.

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**Catherine Buan** - *Okta, Inc. - Vice President of Investor Relations*

(technical difficulty)

today's conference call to discuss Okta's fiscal second quarter 2018 financial results. 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 and market positioning. Forward-looking statements involve known and unknown risks, 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'll 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 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 in 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 from time to time, including the section titled Risk Factors in the company's Form S-1 previously filed with the SEC. You can also find more detailed information in our supplemental financial materials, which includes trended financial statements and selected metrics posted on our Investor Relations website.



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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 to everyone for joining us. We reported a very strong second quarter, and I'm pleased to share our results with you today.

We're also coming off the heels of our customer and partner conference, Oktane17, which brought a number of exciting announcements in the last week. This year's Oktane was the largest event we've ever had with over 2,400 individuals registered, including over 350 partners and over 100 C-level executives who participated in our Executive Summit. It was an incredibly successful event, and it wouldn't have been possible without the enthusiasm and support from our customers, partners and employees.

I'll begin the call today with a brief overview of our performance in the quarter and then go through some of the updates to our business with a few notable customer wins. Finally, Bill will walk through the financial results in detail.

In our second quarter as a public company, we once again achieved record quarterly revenue in billings. At the same time, we saw significant improvements in our operating and free cash flow margins year-over-year. Total revenue grew 63% year-over-year to a record \$61 million, while subscription revenue grew 68% year-over-year to \$56 million. Calculated billings grew 54% year-over-year to \$72 million. And we continued to see improving leverage in our business, demonstrated by a 20 point improvement in our non-GAAP operating margin and a 23 point improvement in our free cash flow margin year-over-year.

I know a number of you are still relatively new to the Okta story, but I'd like to take a few moments to explain what we do and why our customers choose Okta as the identity platform for their business ecosystems. What we do is based on a relatively simple concept. Identity is the foundation for connections between people and technology. The single biggest driver of our market continues to be the fundamental shift of organizations moving to the cloud.

We have seen a relentless rush of new technologies and device proliferation that has resulted in ever-increasing complexity and security challenges for organizations. Born and built in the cloud, we are on the right side of history in this shift and are well positioned to capitalize on this market as the leading independent provider of identity for the enterprise.

The value proposition that we bring to the market has been further validated by Gartner in their recently released Access Management Magic Quadrant. We were not only named a leader in this report but achieved the highest positioning in ability to execute. We believe we are in the driver's seat as this transformation unfolds, and Okta continues to set the standard for managing identity in the extended enterprise and transforming the customer experience.

We have developed a comprehensive identity management platform called the Okta Identity Cloud, which enables customers to securely connect their users to practically any technology anywhere at any time and from any device. The Okta Identity Cloud is made up of 6 individual products: Okta Single Sign-On, Universal Directory, Adaptive Multi-Factor Authentication, Lifecycle Management, Mobility Management and API Access Management.

Together, these products enable millions of users to securely access the applications and data they need. Our customers use our products for managing a range of identities across their businesses, and we have focused on 2 distinct use cases in our approach to the market.

Number one, Okta for the extended enterprise. We enable organizations to connect people and technology within and outside their businesses, which we refer to as the extended enterprise. The extended enterprise includes not just an organization's employees but also contractors, partners and suppliers who require varying levels of access to an organization's resources and tools. These extended enterprise environments can become very complex to manage given the ever-growing network of individuals and applications that are added to an ecosystem as an organization grows.



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It's becoming increasingly important for CIOs to understand not just who is accessing their organization's applications but the context of when, where and how individuals are accessing systems without limiting access to the applications they need. As such, identity is becoming a more strategic part of managing an IT infrastructure, and organizations have been turning to the Okta Identity Cloud to help them solve this problem, which in turn helps companies grow faster, cut costs, increase efficiency, and enhance security and compliance.

Number two, Okta for the customer experience. It has become increasingly apparent that every company is becoming a technology company. Organizations of all sizes and industries are building mobile, web and API-driven applications and, in one way or another, are using technology to transform their customers' experience. Products across the Okta Identity Cloud can be used by business leaders to bring an identity layer into their own innovations, enabling personalized, secure and engaging new experiences for their users. We have invested significant time and resources in our offerings for software developers to enable the integration of Okta into customer-facing applications.

The addition of the Stormpath team further accelerates this investment, builds on our existing products and emphasizes our continued focus on the developer. We also announced some exciting updates to Oktane last week, including our Developer Edition, which I'll elaborate on further in a few minutes.

As organizations increasingly see the strategic value of identity, our solutions have become a more integral part of their daily operations, both within their organizations and in managing their customers' experience. As a result of the growing use of our platform from both a customer and user perspective, we've seen our ecosystem of applications continue to grow.

We announced at Oktane an expanded set of integrations called the Okta Integration Network, which broadens the network to connect more technologies across the enterprise. The Okta Integration Network includes connections to a range of technologies provided by partners, such as Palo Alto Networks, F5, IBM and Cisco, delivering new solutions around workflow management, business analytics, security automation and hybrid IT.

We believe the Okta Integration Network offers the most comprehensive library of both public and custom applications, which gives the customer the power to use whatever applications they want within the Okta Identity Cloud. And our customers value this flexibility and freedom of choice.

One of the benefits of the network we've built is the plethora of data we are able to gather and analyze, which we can learn from and use to help our customers make better informed decisions around technology adoption. At Oktane, we announced the launch of our Businesses @ Work dashboard, which captures the aggregate anonymized data from our network of thousands of companies, organizations, applications, custom integrations and millions of daily authentications from around the world to enable real-time visibility into the most relevant trends in cloud applications among our users.

Our dedication to our customers and innovation is clear given the numerous product enhancements that we announced at Oktane last week. These updates make the Okta Identity Cloud an even more comprehensive category-defining offering for managing identities across both the extended enterprise and for the customer experience.

Specifically, there are 3 categories of announcements from Oktane. First, we announced new functionality for many of our IT products. We added 2-factor authentication and common password detection to our Single Sign-On product, increasing security for all Okta SSO customers. Continuing with security, we enhanced the Okta Adaptive Multi-Factor Authentication product to seamlessly integrate with more of our customers' environments, including on-premise and customer applications. This enables much more broad-based contextual access management and adaptive risk-based authentication.

We added self-service registration and enhanced account suspension capabilities to our Okta Lifecycle Management product, which both reduces costs and enhances security. And last but not least, we added significant LDAP support to our Okta Universal Directory product, giving it the capability to bridge the gap with legacy on-premises systems that many large enterprises use.

Second, we announced an enhanced integration with Palo Alto Network's security platform to provide security across cloud, on-premise and hybrid applications and data centers. With this deeper product integration, organizations will be able to automatically respond to threat actors to help



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prevent cyber attacks. With Okta at the identity level and Palo Alto Networks at the network to cloud and endpoint, this gives customers the ability to automate, monitor and analyze action against security threats.

Finally and most importantly, we announced significant enhancements to the Okta API products with new developer product capabilities and a new Developer Edition. We're extremely excited about these new capabilities, which help companies transform their customer experiences.

And we've continued to see very strong growth in this part of our business. These product enhancements make it much easier for developers in any organization, in any industry to build and scale sophisticated and streamlined customer-facing applications. With this updated suite of developer resources, we are solidifying our position as the leading identity resource for anyone building software today.

Our focus on keeping up with the rapid pace of innovation in the market has helped us to develop what we believe is the most comprehensive identity solution available today. As I previously mentioned, we were pleased to be recognized as a leader in Gartner's Magic Quadrant for Access Management. Prior to this year, Gartner had separately evaluated legacy on-premises vendors and modern cloud solutions. We were named a leader in every single version of what Gartner called Identity as a Service. This year, Gartner combined all vendors into a single category. In this newly created Access Management category, Okta leads every vendor in the ability to execute, including among others, Microsoft, Computer Associates, Oracle and IBM.

Now I'll move on to a few notable customer examples from the quarter. First, a large North American grocery retailer selected the Okta Identity Cloud as the cornerstone of their online and mobile experiences for their customer loyalty, rewards and e-commerce programs. The company is using Okta API Access Management as a critical part of how they are going to re-architect their customer experience. With Okta, the retailer will enable over 50 million customers across multiple grocery brands to access targeted promotions, conduct e-commerce and leverage loyalty rewards via one central identity platform. This is a great example of how customers use the Okta Identity Cloud to enhance their customers' experiences and ultimately drive customer loyalty.

Second, we continue to see expansion across our current customer base. For example, after an initial success across multiple subsidiaries, a global electronics company extended their commitment to Okta by establishing the Okta Identity Cloud as their company-wide standard for identity and access management. Their expanded use of Okta will support over 250,000 employees worldwide and will empower the company's brand across several industries. With the Okta Identity Cloud, the company plans to consolidate multiple disparate identity and access management products and accelerate their global adoption of the cloud.

Third, after initial internal rollout of Okta to manage employee access to applications, a major North American home, life and auto insurance company this quarter extend their commitment to Okta. Now more employees and over 40,000 insurance agents will use Okta to securely access applications. With security an important requirement for their company, they will leverage Okta's Adaptive Multi-Factor Authentication to secure their extended enterprise.

These customer examples are particularly exciting as they demonstrate our increasing momentum with large enterprise customers. We are seeing more frequent instances where we are beating or replacing legacy solutions, further demonstrating our strong competitive position in the market. Our average deal sizes have continued to grow, and we have consistently had success upselling customers of all sizes into larger deployments. And perhaps most importantly, our customers are extremely satisfied with the products and level of service we deliver them.

Looking back on the quarter, I'm very pleased with our results and even more excited about the future. We've continued to define and expand the market for identity solutions, and we believe we are well positioned to capitalize on our expansive market opportunity. With the new enhancements to the Okta Identity Cloud and our initiatives with the developer community, we've extended our lead in identity management for the enterprise.

We appreciate everyone's support to date and look forward to reporting on our progress in the quarters ahead. I'd now like to turn the call over to Bill to walk through our financial results. Bill?



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**William E. Losch** - Okta, Inc. - CFO

Thanks, Todd, and thanks again to everyone for joining us. Let me start with a brief reminder on our financial model and go through our fiscal second quarter results in detail before moving on to our outlook for the third quarter and full year fiscal 2018.

For those of you who may have just started to learn about Okta, we generate revenue primarily by selling subscriptions to our cloud-based platform that are generally 3 years for our large enterprise customers and 1 to 2 years for our smaller mid-market customers. We typically invoice customers annually and in advance. Our subscription fees are based on the products customer is using and the number of users.

Our professional services revenue include fees for assisting customers implementing our products. We aim to enable our customers' success and drive higher subscription revenue as these customers expand their usage of the Okta Identity Cloud.

We had a successful second quarter and are pleased with our results. Revenue for the second quarter totaled \$61 million, growing 63% year-over-year. Subscription revenue totaled \$56.1 million in the second quarter, an increase of 68% year-over-year, and comprised 92% of our total revenue, up from 89% in Q2 last year. Professional services revenue was \$4.9 million, an increase of 23% over the same period last year. As a reminder, professional service revenue is not a core driver of our top line momentum, and we anticipate that it will continue to be a small proportion of our overall revenue over time, given the success of our partner ecosystem.

In terms of geographic breakdown, approximately 85% of our second quarter revenue came from the U.S. and 15% came from outside the U.S. compared to 88% and 12%, respectively, in Q2 last year. We continue to expand our footprint internationally with international revenue growing over 100% this quarter year-over-year.

Moving on to billings. We recorded calculated billings of \$71.7 million in the quarter, an increase of 54% over Q2 last year. We are pleased with our billings growth as it demonstrates the strong underlying demand for our products. We do not plan on giving billings guidance on a regular basis, but given the exceptional 63% year-over-year growth we saw in the first half of the year, I'll give you some color on our expectations.

For the full fiscal year, we continue to expect very strong billings growth in the 50% range. We maintained strong growth in our customer base and ended the second quarter with over 3,650 customers, up 38% versus 2,650 customers in Q2 last year. We also finished the quarter with 539 customers with an annual contract value above \$100,000, up 52% compared to Q2 last year.

It's important to note that the majority of these large customer additions came from new logos, demonstrating our increasing traction landing deals in the large enterprise market. These large customer land deals also paved the way for more sizable upsell opportunities in the future, a key driver of our business long term.

In addition, we continue to expand with our existing customers, which translates to a consistently strong dollar-based retention rate, which was 123% for the trailing 12 months ended July 31. Strength in our dollar-based retention rate is driven by the stickiness of our products as well as our high customer satisfaction, which Todd mentioned.

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 a reconciliation between GAAP and non-GAAP results can be found in our earnings release as well as the supplemental materials posted on our Investor Relations website.

Subscription gross margin was 79.3%, up over 300 basis points versus the second quarter last year. Our professional services gross margin was negative 27.2% compared to negative 25.1% in the second quarter last year. As a reminder, we recognize professional service costs when they are incurred regardless of when the revenue is recognized. Therefore, professional services margins will continue to fluctuate from quarter-to-quarter. As we have mentioned in the past, we will continue to leverage our partners for support services as we expand our business.

Total gross margin was a record 70.7% in the second quarter, up over 540 basis points year-over-year. Gross profit was \$43.1 million, up 76% year-over-year. We continue to expect our overall gross margin will move higher over time as we see operational leverage improve, but we will see some variability.



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Turning now to operating expenses. We remain focused on balancing our investments for growth while improving leverage. We saw an exceptional increase in our operating margin this quarter as we outperformed on revenue and our expenses were lower than expected. Longer term, we expect to continue improving our operating margins as our subscription revenue grows at a faster rate than our total operating expenses. However, we will continue to see quarterly fluctuations in the near term.

Sales and marketing expense for Q2 was \$36.6 million compared to \$27 million in Q2 last year. This represents 60% of total revenue, an improvement compared to 72% in the second quarter last year. We are beginning to see some operational efficiencies earlier than expected from our prior investments.

R&D expense in Q2 was \$12.5 million compared to \$8.9 million in Q2 last year. As a percentage of total revenue, R&D was 20% in Q2 versus 24% in the same period last year. We remain focused on innovation as evidenced by the number of product enhancements we announced at Oktane, and we will continue to invest in R&D to fuel this development.

G&A expense was \$9.2 million for the quarter compared to \$5.4 million in the second quarter last year. G&A was 15% of revenue versus 14% of revenue in Q2 last year. We expect that our G&A expense will continue to grow at a moderate pace on an absolute basis as we have added personnel and systems to support our transition to a public company.

Our operating loss in the quarter was \$15.2 million compared to a loss of \$16.9 million last year. Operating margin was negative 25%, a 20 point improvement compared to negative 45% in the same period last year. We expect our operating margin in the third quarter will be closer to what we saw in the first quarter of this year due to the impact of Oktane.

Net loss per share in Q2 was \$0.16 using 93.6 million basic shares outstanding. This compares to a net loss per share in Q2 last year of \$0.90, using 18.8 million basic shares outstanding at the time.

Free cash flow was negative \$10.5 million in the quarter compared to negative \$15 million in the second quarter last year. Free cash flow margin was negative 17%, a 23 point improvement compared to negative 40% for Q2 last year. We expect to continue to make progress toward positive, sustainable free cash flow on a year-over-year basis, but it may not be in a linear trajectory on a quarterly basis in period-to-period fluctuations in billings, elections and other working capital.

Turning to the balance sheet. We ended the second quarter with \$213.2 million in cash, cash equivalents and short-term investments. We remain comfortable with our cash position.

Lastly, we ended the quarter with a total headcount of 1,096, growing 38% over Q2 last year. We continue to add headcount across the board as we invest in our innovation and support the fast growth of our business.

Moving on to guidance. For the third quarter fiscal 2018, we expect revenue in the range of \$62 million to \$63 million, representing a growth rate of 47% to 49% year-over-year; non-GAAP operating loss in the range of \$23.5 million to \$22.5 million; non-GAAP net loss per share in the range of \$0.25 to \$0.24, assuming 94 million weighted shares outstanding.

For the full year fiscal 2018, we are updating our guidance as follows: revenue in the range of \$243 million to \$245 million, representing a growth rate of 52% to 53% year-over-year; non-GAAP operating loss in the range of \$78.4 million to \$76.4 million; non-GAAP net loss per share in the range of \$0.98 to \$0.95, assuming 80.6 million weighted shares outstanding.

In summary, we had a successful second quarter, demonstrated by our strong top line growth. While we are also pleased with our improving leverage, we are continuing to invest in our business to capitalize on the large opportunities at hand. We look forward to seeing many of you over the coming weeks on the road.

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



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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And we'll take our first question from Rob Owens with KeyBanc Capital Markets.

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

First, I just want to ask about something you announced at your Analyst Day relative to LDAP integration and curious to -- if you can provide some color if that had been a sticking point for smaller organizations in the past, and what the potential implications are in your small and mid-market customers.

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

So I think the -- we did -- as you mentioned, Rob, we announced Universal Directory now supports the LDAP protocol natively, and it's a little bit of a -- it's an important enhancement for a couple reasons. The first reason is that, as you mentioned, it enables companies that are using any LDAP native application to connect it directly up to Universal Directory, which does help some of these smaller companies that are rolling out some of these DevOps types of workloads and connecting them up to Universal Directory seamlessly. But on the -- in the larger enterprise, while we've replicated to and from LDAP for a long time, that -- in that scenario, we could support LDAP, but they still had to keep the LDAP server around. But with this enhancement, now they can actually retire that legacy infrastructure. So they don't have to actually run those LDAP servers. So it actually helps both large enterprise and smaller companies. That's why it's so important to us.

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

Great. And then second, Bill, you talked about your success within large customers and the new logo additions. Can you give us color on, as you're seeing these larger deals come in, is this for a single product? Do you see multiproducts typically with your larger customers right off the bat? Or does it remain kind of a nice upsell opportunity as you move forward?

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

I think it's -- when they start using us, the land deal is usually a single product. And what happens is that, over time, we make them successful, and then by the time they get to deploying more and more products, we become the standard. We talked about -- I talked about this -- the electronics company, the global electronics company that standardized us across all of their subsidiaries. And that was the example there where they've used us in some subsidiaries for a single product and then multiple products, and this deal was really a very, very large upsell where they've really standardized on this -- on us for all their identity needs. And as a result, they're taking out a bunch of legacy vendors across their entire landscape, so the answer is kind of both, right. It's like single product initially and then multiproducts over time.

### Operator

And we'll take our next question from Heather Bellini with Goldman Sachs.

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

I had a question about the executive, the 100 C-level execs you mentioned that you hosted last week for the executive track. And in particular, I'm just wondering how has their usage of Okta changed over the last few years and just the narrative that they have with the company. So I guess I'm





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wondering, did it start out that people thought of them -- thought of you as a security offering and now that's changed from being security focused to one that's also revenue enhancing? I'm just wondering kind of how you've seen the relationship with those customers evolve. And I guess we'll start there, and then I had a follow-up.

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**J. Frederic Kerrest** - *Okta, Inc. - Co-Founder, COO and Director*

Thanks, Heather. This is Frederic. So as you mentioned, at Oktane last week, we had our second annual Executive Summit. We had the first one last year. And the size of the room certainly grew substantially as did the representation of C-level executives at some of our larger enterprise customers. And I think that's due to a couple of things. First of all, just the macro trend, right. The trends that we see of company's needing to manage and secure their extended enterprise and transform their customer experiences, this is something that is becoming relevant to every organization and not just to small and mid-market companies. And so as large organizations think about how they're going to do this, certainly, they have, at the implementation level, they have interest. But these are executives who are thinking about their broad plans in terms of how they can not only reduce the cost in their organizations but also increase their revenue while, as you said, enhancing their security posture along the way. And I think that you see that as a result in that group of executives that joined us.

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

Yes, I will just add...

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

And then just one follow-up (inaudible)...

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

I would just -- one thing I would add -- I was going to say, Heather, from my perspective, you just saw a maturation of -- from a couple years ago, it was like they were kind of learning about the platform and learning the breadth of the platform, and this year, it was more about how am I -- how was this going in terms of big transformation of my company. And so the maturity of the conversations had progressed a lot.

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

Okay. And that segues into my other question, which is really then, if you were to kind of cohort these people to the extent that you can, how have you seen their adoption of Okta products evolve? Meaning, did they start out with just one and now these are kind of mostly multiproduct customers? Is there anything you could share with us about their profile?

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

I think one thing I've noticed is that there's far more of them are using us for customer experience, so there -- that part of our business has grown. That's just matured a lot, especially with these large companies.

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**J. Frederic Kerrest** - *Okta, Inc. - Co-Founder, COO and Director*

Yes. What I would add to that, Heather, is I think when -- if you're a large organization, and you're -- a few years ago, it was like, okay, I'm going to take a risk on a new cloud-based identity service. I'm going to try it for one part of my business. I can think of a large manufacturing customer of ours in the Midwest who started with they had an internal project for their employees. They started with a specific set of use cases and a couple of our products, and very quickly, they saw success within a couple quarters and came back to us very quickly and said, okay, now I'm more comfortable



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with the company, with the product suite. I want to understand the entire breadth of what you do, how you can help me not only on my extended enterprise but also with my transformational customer projects, and I really want to align this with what I'm seeing going forward. And I think that is a good example of what we're seeing across the board in the large enterprise.

### Operator

(Operator Instructions) We'll take our next question from Sterling Auty with JPMorgan.

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

Want to start on the operational front. Wonder if you can give us an update on where you are in terms of your sales hiring for the year relative to your original expectations.

### William E. Losch - Okta, Inc. - CFO

Yes, Sterling. So on the sales front, we're hiring very robustly on our key in sale to marketing roles, and so that we're -- we've had aggressive targets. And we are meeting those targets as far as hiring those sales folks because that's obviously very important as we grow to realize these huge opportunities we have in the market.

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

And maybe, Freddy or Todd, can you characterize, where are you finding the incremental sales rep? And is the profile of that salesperson changing as the adoption rate and the use case in terms of what you're being brought in for now seems to be evolving?

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

I think that one thing we've seen is that as we do these larger enterprise deals that really become the standard across these large enterprises -- I mentioned a couple of them before, the large electronics, the global electronics company and then the large grocery chain. These kind of deals are more complicated, so I think it requires a more experienced enterprise-type rep. So I think that would be one in terms of hiring profile we've -- over the last couple years, we've adjusted to.

### J. Frederic Kerrest - Okta, Inc. - Co-Founder, COO and Director

One thing I would add, though, Sterling, to your question is with the growth that we are seeing and the momentum that we have in the market, right, success begets success, and we have more and more of our successful enterprise reps are referring in folks that they know from past lives. And I think that that's helped us a lot, especially as we continue to expand not only in North America but internationally as well.

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

That's actually a good segue into my follow-up was how would you characterize where you are in the build-out of the international operations. And what are you seeing out of international customers in terms of demand and how that might mirror what you saw maybe a year-or-so ago here in the Americas?



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**William E. Losch** - *Okta, Inc. - CFO*

Yes, Sterling. The international business is outpacing the U.S. in revenue growth, and we're excited to see that the macro trends of acceleration in the enterprise cloud that we saw -- have seen in the U.S. is also extending itself internationally. So we're very, very optimistic about that. And as a result, we are focused on building out our go-to-market operations, investing there. And also, over time, we're expanding and leveraging our channel partners, and we'll be doing that to give us more reach and leverage internationally, Europe and in Asia.

**Operator**

And we'll take our next question from Richard Davis with Canaccord.

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

Two quick questions. So one of the hard things that a senior manager, the CEO has to decide for companies at your stage is kind of where to draw the line between partners and internal teams to ensure that these great large customers have successful deployment. If you underinvest, you hurt growth. If you overinvest, you hurt margins. How do you think about that balancing act as your business kind of evolves?

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

Yes. It's interesting. I -- the way I look at it is that make the customers successful. That's the first and, in many cases, the only priority, make them successful, especially in our business, which is a -- it's a transformational technology. They're long-term relationships. The strategic value we provide to the customers is very valuable to them and to us so make the customer successful. So that being said, as we've invested more in partners in terms of systems integrators and channel sales partners, we're not the only people in the world that can make the customer successful. So as long as we don't violate that first priority, we're very happy to partner and have the best folks in the industry help us with our #1 goal, which is customer success.

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

As I'm driving and trying not to get run over by a car. Second question is you had Stormpath for now about a few months now. What's gone well so far? What would you like to see go better over the next 12 months? That's it.

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

Yes. I think, this is -- having an offering that is consumable by any developer as they build any application and helping all these folks out there trying to transform their customer experience is a big priority for us. So I mean, like anything, I wish it was all going much faster. I'm very impatient with these kind of things. But that being said, we've made a ton of progress, a lot of which we showed off at Oktane. Last week, we have a new Developer Edition. We have -- and we've done a much better job at really exposing all the capabilities of our platform in a very easy-to-understand and consume and very powerful way for developers because all these customer experience transformation projects have development teams involved, and we're going to be the lead in identity provider to developers. And that's the goal, and we're off to a really good start.

**Operator**

And we'll take our last question from Patrick Walravens with JMP Group.



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

I have 2. So the first one is that I really enjoyed the conference, and I like the customer conversations and the customer panels. One of the things that I noticed, though, is when enterprises adopt you guys, they're often replacing not just one solution but a bunch. And so I was wondering if you could sort of address that and, at the same time, talk about competitively what you see in these sales cycles.

**J. Frederic Kerrest** - Okta, Inc. - Co-Founder, COO and Director

Yes, absolutely. I'm happy to do that. So when you think about a large enterprise, right, and we can take Experian as an example, they are one of the large credit agencies, obviously. They have been around for a long time, and they have a lot of on-prem infrastructure as you mentioned. And so there's a lot of opportunity to retire different types of systems. Some of them will be specifically focused around core identity and access management. Others will be around gateways for API access they might have built themselves. And so certainly, as they find more and more use cases where they can extend and leverage the service and the platform and the products that we have, there are more and more ways for them to take cost and infrastructure from legacy providers out of the equation.

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

Okay. And then, I guess, Todd, for you, maybe. I remember when you interviewed Diane Greene. That was -- I think that was last year's conference. That was great. And then this year, I noticed that Google was the sole titanium sponsor at the conference. So -- what is the -- it seems like the relationship is somewhat special. What is the relationship with Google?

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

Well, I think that Google is an important player in cloud applications and cloud infrastructure. And what the -- for Google, we can help them, especially in the large enterprise, connect their applications and their cloud infrastructure to the directories and the on-premise identity systems that these large enterprise customers we're both going after have. So -- and then from us, of course, our prerogative is to connect in an independent neutral way to every major cloud infrastructure and cloud application platform. It's one of the things that really -- platforms. It's one of the things that really differentiates us. We don't have -- we're not selling Infrastructure as a Service. We're not selling applications. I mean, we're selling identity, and Identity as a Platform, and we can play this neutral and independent role and let the customer choose whatever is best for them. So for us, it's just part of our mission to connect to companies like Google and, by the way, which is the same way we connect to Amazon and the same way we connect to Microsoft and Salesforce and all the leading cloud, infrastructure and application companies. So that -- it's really a synergistic relationship, which is why I think both of us are investing in the partnership.

**Operator**

And it appears there are no further questions. I would like to turn the conference back over to Todd McKinnon for any additional remarks.

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

So thanks for your time and attention. I mean, this -- we've talked a lot about on this call. But Okta is about -- the story of Okta is about a couple of important trends. One is the move to the cloud, which continues. That march continues really unabatedly. And then also, as companies try to transform their customer experience, Okta can help them do both. We can help them adopt new technology. We can help them transform their customer experience, and it's really what leads to this big market opportunity we have, which is why we're so focused on executing in a both aggressive way but also an efficient way, which is why you see the results we've posted. So we're really excited about the progress, but we also look forward, and we're very excited about the quarters and the years ahead. So thanks for your time, and have a good afternoon.



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**Operator**

And once again, that concludes today's presentation. We thank you all for your participation, and you may now disconnect.

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