Q3 2025 Earnings Call *(Corrected version)*

Event Details

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Company: Okta, Inc.
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Company Participants

David Gennarelli - Okta, Inc., Senior Vice President-Investor Relations
Todd McKinnon - Okta, Inc., Co-Founder, Chief Executive Officer & Chairman
Brett Tighe - Okta, Inc., Chief Financial Officer

Other Participants

John DiFucci - Analyst
Eric Heath - Analyst
Gray Powell - Analyst
Gabriela Borges - Analyst
Hamza Fodderwala - Analyst
Matthew Hedberg - Analyst
Joshua Tilton - Analyst
Jonathan Ho - Analyst
Joseph Gallo - Analyst
Mike Cikos - Analyst
Madeline Brooks - Analyst
Shrenik Kothari - Analyst
Rudy Kessinger - Analyst
Saket Kalia - Analyst
Patrick Colville - Analyst
Rob D. Owens - Analyst
Peter Levine - Analyst
Trevor J. Walsh - Analyst
Brian Essex - Analyst
Junaid Siddiqui - Analyst
Adam C. Borg - Analyst
Fatima Boolani - Analyst
Peter Weed - Analyst

MANAGEMENT DISCUSSION SECTION

David Gennarelli

Hi, everyone. Welcome to Okta's Third Quarter of Fiscal Year 2025 Earnings Webcast. I'm Dave Gennarelli, Senior Vice President of Investor Relations at Okta. With me in today's meeting, we have Todd McKinnon, our Chief Executive Officer and Co-Founder; and Brett Tighe, our Chief Financial Officer.

Around the same time that the earnings press release hit the wire, we posted supplemental commentary to the IR website. This posted commentary contains a large portion of what would historically be the opening commentary, including customer commentary, product-related news and a review of our financial results. This format allows listeners to review that information before this call.

Today's meeting will 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 and uncertainties that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Forward-looking statements represent our management's beliefs and assumptions only as of the date made. Information on factors that could affect our financial results is included in our filings with the SEC from time to time, including the section titled Risk Factors in our previously filed Form 10-Q.

In addition, during today's meeting, we will discuss non-GAAP financial measures. Though we may not state it explicitly during the meeting, all references to profitability are non-GAAP. 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. A reconciliation between GAAP and non-GAAP financial measures and a discussion of the limitations of using non-GAAP measures versus their closest GAAP equivalents are available in our earnings release.

You can also find more detailed information in our supplemental financial materials, which include trended financial statements and key metrics posted on our Investor Relations website. In today's meeting, we will quote a number of numeric or growth changes as we discuss our financial performance. And unless otherwise noted, each such reference represents a year-over-year comparison.

And now I'd like to turn the meeting over to Todd McKinnon. Todd?

Todd McKinnon

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Our solid Q3 results were once again highlighted by strength with larger customers and strong profitability and cash flow driven by continued spend efficiencies. While the macro environment remains consistent, we're encouraged by some positive data points in Q3. I'll touch on some of those, and then get into other highlights from the quarter before turning over to Brett.

I've mentioned previously that deepening our relationship with our partner ecosystem is one of our main priorities. We're already seeing good progress, as all of our top 10 deals in the third quarter involve partners. These 10 deals were all over $1 million in annual contract value, and in aggregate, represented approximately $20 million in ACV. This underscores the value of investing in our partner ecosystem.

The public sector also continues to be an area of strength. In fact, half of the top 10 deals that I just mentioned were in the US federal vertical. We've made great progress with our presence in the public sector and believe we have a tremendous amount of runway ahead of us. Our largest customers remain an area of strength. The cohort of $1 million-plus ACV customers continues to be our fastest-growing cohort. In total, this cohort now represents approximately $1 billion in ACV. We were also pleased with the upsell and cross-sell activity in Q3. Specifically, we experienced strong growth of workforce customers buying more workforce products, as well as workforce customers buying customer identity. Okta's expanded product portfolio is allowing us to equip our customers with more industry-leading identity solutions to support them in their goal to operate more efficiently and securely.

The threat environment has never been more hostile. Organizations are constantly under attack and identity has become a primary attack vector. Okta's technology has become more important than ever in helping to prevent and mitigate these attacks. We're advancing our vision to free everyone to safely use any technology with the expansion of our unmatched portfolio of identity solutions through great product innovation. We're also accelerating our investments in the Okta Secure Identity Commitment, which is resonating with prospects and customers.

We recently showcased that innovation at Oktane, our biggest customer and partner event of the year. The energy at the event was terrific, as in-person attendance was up over 25% versus last year and represented hundreds of millions of dollars of pipeline. Attendees heard about the future of identity security and how Okta is responding to the evolving threat landscape. We highlighted more than 30 products, features and capabilities across our workforce and customer identity clouds that will deepen our customers' security and help them create exceptional customer experiences while enabling us to reignite our growth with a focused approach.

It's also great to receive validation on our strategy and vision from third parties. Okta was recently recognized as a leader in the 2024 Gartner Magic Quadrant for Access Management for the eighth consecutive year. Okta achieves the highest and furthest overall position for its ability to execute and completeness of vision in this research.

We have a lot of optimism about the direction of the business. One of the things we're excited about is go-to-market specialization. In Q1 this year, we introduced a layer of specialization in the go-to-market team with the hunter-farmer model for the Americas SMB market. As we plan for FY 2026, we are planning for further specialization in our global go-to-market strategy to better align with the distinct identity buying centers of IT security and developers. Doing so will allow us to meet evolving market demands, help reignite growth, and create a win-win scenario that benefits both our customers and Okta, ultimately driving better business outcomes.

To wrap things up, we remain hyper-focused on our top priorities of security, growth and scale. Identity is security, and we're taking the right steps to advance our position as a leader in the identity market while remaining focused on investing for growth and driving spend efficiencies and cash flow. Now, here's Brett to cover the financial commentary and talk about how we're positioned for long-term profitable growth.

Brett Tighe

Thanks, Todd, and thank you, everyone, for joining us today. We continue to build on the efficiency initiatives that we've been implementing over the past two years. Our Q3 financial performance was highlighted by continued strong cash flow and operating profitability, including GAAP profitability.

I'll note that similar to the prior three quarters, as we have analyzed our key metrics, we could not attribute a quantifiable impact from the October 2023 security incident on our Q3 results. And while not quantifiable, the event likely had some level of impact. Our view on the macro environment is that it remains consistent with what we've experienced for the past few quarters. Organizations are scrutinizing budgets and rationalizing their software spend, resulting in lower assumptions for seats and our Workforce Identity business and MAUs in our Customer Identity business. These lower seat and MAU assumptions have put our net retention rate under pressure over the past few quarters, while gross retention has remained strong. Helping to partially offset the seat in MAU headwind is the success we've been having in selling more products to both our new and existing customers.

Our relentless focus on innovation has been resonating with our customers as approximately 15% of Q3 bookings were from new products. Okta Identity Governance continues to represent approximately one-third of the contract value when sold in a Workforce deal. In addition to OIG, we're also selling new products like

Okta Privileged Access, Device Access, Fine Grained Authorization, Identity Threat Protection and Identity Security Posture Management. Our data tells us that customers that adopt more products have the highest retention rates. So, we're excited about the trends here and the long-term contributions to the business.

Now, let's turn to our business outlook for Q4 and FY 2025. As always, we take a prudent approach to forward guidance. We are factoring in a macro environment consistent with what we experienced in Q3. We are no longer incorporating additional conservatism into our outlook related to the potential impacts from last year's security incident.

For the fourth quarter of FY 2025, we expect total revenue growth of 10% to 11%, current RPO growth of 9%, non-GAAP operating margin of 23%, and free cash flow margin of approximately 32%.

We are raising our outlook across the board for the full year FY 2025. We now expect total revenue growth of 15%, non-GAAP operating margin of 22% and a free cash flow margin of approximately 25%.

While we are still in the early phases of financial planning, we would like to provide a preliminary view of FY 2026. We're providing this preliminary outlook ahead of closing our biggest quarter of the year. We will provide formal FY 2026 guidance on our next earnings call, which will factor in our actual Q4 performance. We remain focused on profitable growth and continue to prudently factor in a macro environment that is consistent with what we've experienced over the past few quarters.

As such, we're expecting a non-GAAP operating margin of at least 22%. We're targeting a free cash flow margin of at least 24%. From a revenue perspective, we estimate total revenue to be $2.77 billion to $2.78 billion, representing growth of approximately 7%. We believe these numbers are achievable while maintaining an appropriate measure of conservatism.

To wrap things up, we're pleased with the progress we've made to drive operational efficiencies. We've demonstrated exceptional leverage in our model over the past two years, and we remain focused on delivering profitable growth for years to come.

With that, I'll turn it back to Dave for Q&A. Dave?

QUESTION AND ANSWER SECTION

Answer – David Gennarelli: Thanks, Brett. We have several hands raised up already. We'll take them in the order that they're in. And if you have follow on questions, you can get back in the queue, so try to limit yourself to one question. With that, we'll kick it off with John DiFucci at Guggenheim. John?

Analyst: John DiFucci

Question – John DiFucci: Thanks, Dave. My question, I think, has to do with something Brett just said. Brett, you said you're no longer incorporating additional conservatism in the guidance due to the incident from last October. And that makes sense, by the way, now. But your guidance for next year, I just want to sort of understand, it's an initial guidance for next year. Should we think about it, listen, I think you guys do a pretty good job when you guide, but at the same time, I'm just trying to think about it like last year you had a lot going on. And two years before that, should we go back to those years and kind of think about your approach that'd be similar to those years? Just trying to get my head around it.

Answer – Brett Tighe: Yeah.

Answer – Todd McKinnon: Hey, John. Hey, before you jump in, Brett, I want to just set the context at a high level. The Q3 was a solid quarter. And as we go into Q4 and think about next year, Brett can talk about the specifics on guidance, but we are – I think we've been pretty balanced between optimistic about the future and all this new product momentum and all this large customer momentum. But I also want to make sure we have the right level of prudence in our guidance. So, it's always a balancing act, but I don't want the guidance question to kind of overshadow the momentum we see in the business and the optimism we see there.

Question – John DiFucci: Yeah. And, Brett – I mean – or Todd, I apologize. I very rarely say this at the beginning, but it was a really solid quarter. It really was more than solid. It was it was really good, then your whole team should feel really good about it.

Answer – Todd McKinnon: It's one step. It's one step. We have a lot of work to do, but thanks for saying that.

Answer – Brett Tighe: Yeah. In terms of your question, John, about the guidance, I would say, if you look back – let's go back a year ago, right? And a year ago we had the security incident. We're right on the heels of it. And we guided 10% at that point, right, from a revenue growth perspective for FY 2025. We now think FY 2025 is going to be 15%. You can figure out the delta, 15 minus 10. I would not expect that level of delta in the future just because we're taking out the security incident, right? There was a pretty large unknown at that point and a pretty large unknown until really this quarter where we haven't seen any impact quantitatively from the security incident. So, that's how I would think about it, John. I hope I answered it.

Question – John DiFucci: Okay. But when I go back to the two years before that, you've exceeded your original guidance by, like, over 5 percentage points. That's why I sort of – I get it, though, less than last year, though.

Answer – Brett Tighe: Yeah. And I think the other thing is, like, if you go back a couple of years, we're a much smaller company, growing at a faster clip. So I think just the natural maturation of the business, I wouldn't go back that far as to kind of...

Question – John DiFucci: Yeah. Okay.

Answer – Todd McKinnon: Yeah. The other thing about it, too, is that Q4, with slower growth in these years versus five years ago, Q4 matters a lot more. So giving this guidance at the end of – on the Q3 call, we have – Q4 matters more in terms of seeing where we'll be. So that's why the Q1 look is so illustrative.

Question – John DiFucci: Okay. Thanks a lot, guys. Nice job.

Answer – David Gennarelli: Great. Let's go to Eric Heath at KeyBanc.

Analyst: Eric Heath

Question – Eric Heath: Thanks, Dave. And congrats on the quarter, Brett and Todd. Todd, we've been hearing from some of your GSI partners more about RFPs for consolidated identity platform offering. So I'm curious if that's something you guys are seeing or measuring, maybe measuring in your pipeline or, Todd, even coming up more in customer conversations because it does seem to be resonating in the field with some of your partners.

Answer – Todd McKinnon: Well, I do know on the GSI topic, we have really, really made a lot of progress with GSIs in last year. I'm really, really excited about this because, identity – as the folks on this call know Okta really well, it is sometimes quite complex to do a comprehensive change out of identity. In fact, it's always complex, way more complex than other types of technology, especially in the cyber ecosystem. So that has positives and negatives. The negatives are, sometimes it takes longer to get a deal done; sometimes it takes longer to do upsells. That's the good news – or that's the bad news.

The good news is that once you get a committed cohort of customers and a committed cohort of systems integrators to help a customer on that journey, it's very valuable to the customer and very valuable to the partner for a very long time. So the plus side is that we're going to be providing value in these relationships, and everyone's going to be benefiting for years and years and years, that we had a really solid win of one of the largest technology companies in North America in Q3 that was nearly a $5 million ARR deal. And for that company, it's just the first phase of a multi-phase deal to replace their identity across their whole company.

This specific initiative in Q3 was driven by Zero Trust transformation. So even some of the biggest technology companies are relatively early in their Zero Trust journey, and we worked with one of the largest SIs to scope that deal and bring that deal over. And then, even more exciting about it is the is the deals that are queued up to follow that as we get this initial deal deployed in some level of success, and then move on to the subsequent phases. So that's exciting scenario there, and that's true on a number of deals in the quarter.

I mentioned in my prepared comments that of the top 10 deals in the quarter, that was really strong for big deals. All of them had partner participation. So we're doing a good job building that ecosystem, working with the partners, building trust in those partners. And especially this is true of the global SIs. They're seeing not a lot of choices out there in terms of skilled identity players. And particularly when we talk about a skilled identity player, that's independent neutral and doesn't wrap that customer into one stack, we're unmatched. So they're seeing that and they're seeing the landscape and our unique value there. And they're aligning themselves with us, which I think is going to benefit everyone.

Answer – Brett Tighe: I think also the interesting part about the top 10 deals that Todd was just talking about having all partners, the great part of it was, it was multiple different types of partners. You've heard us talk about GSIs being very important, but it was GSIs, it was ASVs, it was marketplaces, it was the traditional VARs. I mean, there was a mix of them all, so that's why we continue to want to invest in each one of these areas, because we're seeing success like this in Q3.

Answer – David Gennarelli: Great. Next up, let's go to Gray Powell at BTIG.

Analyst: Gray Powell

Question – Gray Powell: All right, great. Thank you very much. Before I ask my question, I just got to say I really appreciate the 10 minutes of prepared remarks. And in fact, Brett, I think your section was probably shorter than DiFucci's question. So again, congrats on keeping it tight.

Answer – Todd McKinnon: We do what we can, Gray. We do what we can.

Question – Gray Powell: Thank you. So for my question, it's been a pretty choppy earnings season so far across our security coverage. And I guess it's just nice to see your numbers inflect higher. So is there any way you can kind of talk about what stood out most this quarter versus Q2? Just like, what changed the most? And then, kind of, how do you feel about the sustainability of that performance and just the forward execution?

Answer – Todd McKinnon: It was pretty different than Q2 in terms of just our execution in the quarter, bringing deals across the line we did. Q2 is okay. Q3 was very solid. And I think that is maybe – I think what it's lining up to be to look like the reality is that the year is looking more backend loaded than what we may have thought in the first quarter or the second quarter, which I think is not – in the history of the company, it's fairly common for that to be the case. But I think this year, it's turning out to be a little more than maybe we anticipated, which means Q4 is a big quarter. And the pipeline is there. And it's up to us and the team to execute on that. And we're really aligned and motivated and understand how important it is as a team that we need to do that. And we're all set to make that a reality.

There is a lot of stuff to build on. We've mentioned a couple of the examples already, the large deals, the new products. So 15% of bookings in the quarter were from these new products, which we wish it was a higher percentage. But there's a lot of new products that are starting to blossom and have the potential to be significant contributors on their own. Governance now is a third of the value of deals it's included in, which is a 30% of the value, less than a third.

Okta Privileged Access is starting to get momentum. We had a nice win there for a US Department of an Asian bank, which bought the whole suite; Access Management, Governance and Privileged Access, which we think is going to be a common buying pattern. And the driver there – I mentioned the large technology company before. The driver in that example is Zero Trust. They're trying to go to a Zero Trust architecture, and identity is important.

For this US division of this Asian bank, it's all about compliance. So they needed to have regulatory compliance for the auditors around not only applications and financial applications, but servers, which Privileged Access gave them that access to.

So we're seeing new products, big deals. We see good partner involvement. But we still think we can grow faster. We talked about the guide for next year and how we're thinking about that. But we continue, as we always have, to think this is a massive opportunity, and it's our second-highest priority after security. And our Secure Identity Commitment is growth and reaccelerating growth. So we're pleased, but we're not satisfied. We have a lot of work to do. And this team is fired up to make it happen, and we're going go out there and do it .

Question – Gray Powell: All right.

Answer – Brett Tighe: I'd add a couple of things, Gray, that actually may not have changed, but are positives for us in general. One is, contract duration continues to be healthy for us. You can see that in the total RPO growth rate. That's now 6 points higher than current RPO growth. The other thing I would add is US federal end of their fiscal year. We had a really solid close to that. So that was, that you heard earlier, is a good portion of those top 10 deals. And I think that's just a continuation of our success in public sector. Think of public sector as actually one of our first forays into specialization, right? We really focused on it. We just put a lot of effort on it. We've done a lot of stuff from an R&D perspective. And so, that continues to also be successful for us in Q3 and is helping the results you see here today.

Question – Gray Powell: Understood. Thank you.

Answer – David Gennarelli: Okay. Next, we have Gabriela Borges at Goldman.

Analyst: Gabriela Borges

Question – Gabriela Borges: Hey, good afternoon. Thanks for taking the question, and congrats on a solid quarter. Todd and Brett, I wanted to pick up where you just left off on the 15% of bookings that are coming from emerging products. Remind us how that number compares to history. And Brett, you mentioned what the net retention rates, there are two dynamics impacting that. You got the pressure on MAUs and seat count and then you got the tailwind from cross-sell. Talk to us a little bit about when you think emerging can offset the headwind and any use in seat count. And it's a long way of asking when you think net retention might trough. Thanks.

Answer – Todd McKinnon: On the on the new product mix, I don't know the exact numbers without going back and looking at the data, my sense being pretty close to the sales process, especially on the new products, this is higher than it has been in the past and it's kind of led by Governance, Identity Governance. And it's for second place where it's like a – it's a pretty close competition between Privileged Access, Identity Threat Protection, which is for the most security conscious customers, it's a really big addition to their suite. Identity Threat Protection, the way to think about it is it's kind of like the advanced version of advanced multifactor. And the big thing it does is it monitors security risks throughout the session.

So, multifactor and advanced multifactor do phishing resistance revenue log in, Identity Threat Protection continuously monitors risk signals, change of IP addresses, CrowdStrike, SentinelOne, detecting any kind of issue and shutting down the session. So, it's proactive monitoring. So, that's a big contributor. And then, on the Customer Identity side, we have Fine Grained Authorization that had a decent quarter, and we also have highly regulated identity. So, you're seeing all these kind of seeds that are starting to grow, which are, frankly, more exciting than the 15% because you see this 15% contributed by multiple seeds that are growing into potentially contributors. It's pretty exciting for the future.

Answer – Brett Tighe: Yeah. Gabriela, I would actually just add. The percentage is up year-over-year because basically last year it was just Governance. And Todd just listed out like six products that are doing really well right out of the gate. So, it's pretty easy to see that the percentage is going up into the right, which is really exciting for us for all the reasons that Todd has said just in his last answer and what he said earlier on the prepared remarks.

In terms of the NRR and what are the effects, it's the same effects we've talked about in the past, right? License counts and MAUs are being scrutinized like we've talked about in the past. It's macro oriented just in general. And then there's also cohorts in the past that are feeling pressure, older customer cohorts that are feeling pressure from the COVID era. In terms of what we expected to do for the next quarter, that's because that's the only forecast they have right now. I don't have it all the way through FY 2026. But for Q4, we think it ticks down a little bit in Q4 based on those factors. It's on top of healthy gross retention, but those factors remain the same in terms of what we've said in the past. And so, that's what we're seeing for now. In terms of what we expect into FY 2026, let us get through Q4 first and then see how that actualizes and we got to finalize our fiscal year 2026 plan, and we'll go from there and be able to give you a little bit more insight on what NRR will do throughout FY 2026.

Question – Gabriela Borges: That all sounds good. Thanks for the call.

Answer – David Gennarelli: Next up, we have Hamza Fodderwala at Morgan Stanley.

Analyst: Hamza Fodderwala

Question – Hamza Fodderwala: All right. Good evening. Thank you for taking my question. Todd, I wanted to ask you about – FTC recently launched an investigation or are reportedly looking to launch an investigation on Microsoft and how they're bundling some of their security services. I'm curious if you have any comment on that and maybe just what you tell customers about some of the risks around vendor lock-in. Thank you.

Answer – Todd McKinnon: Yeah. It's a really important question. I can't – I'm not close enough to know the legal arguments or the regulatory arguments, but they do bundle and the pitch is, hey, buy it off from us and it'll be cheaper. And I think what I tell customers is, first of all, you're foreclosing your option to choose different things. And what's not always obvious to customers is how important identity is, as in that gatekeeper role. There's a reason strategically that – and it's Microsoft now, but I think every big technology company that's trying to sell multiple layers in a platform, whether that's collaboration or business applications or infrastructure, is going to be tempted to take because they all have to build identity. Everything needs a login for itself. They're going to be tempted to take that identity service and use that for general identity and general login because it is hot, it has a very powerful lock-in effect.

If you can get someone to use your identity, they're going to be more likely to use more things from you. So in that sense, it can be a loss leader. And our argument is, first of all, to tell people that. We say, hey, you don't make the long-term choice that's going to lock you in and remove choice and flexibility. And we all know that when you remove choice and flexibility, it's not just that you pay more in the end, you actually get worse outcomes because you can't pick the right technology. And this is particularly important in the security world because, as we also all know, that security is adversarial, and the attackers are coming from many different directions and 8 out of 10 times these security breaches are caused by compromised identity. So, if you are locked into one stack from a security tools perspective and from an identity perspective, you're not going to have as good of security outcomes. So, this is the pitch I make to customers and it's resonating. They understand. I mean, for some customers, it doesn't work. Some prospects it doesn't work. They're just – they don't view technology that strategically or they don't – it's just cut costs no matter what, and they go for the bundle.

But more and more customers, I mentioned one of the largest tech companies in North America, they realized that identity really matters. And having an independent, neutral identity platform really matters. And a dollar they spend with Okta is going to pay back 5 or 10-fold in terms of the security outcomes they get and the flexibility and the ability to onboard different technology. So, it's starting to resonate. And we're doing it, and the team knows this. We're doing something that's never been done before. We're building a scaled out identity platform across multiple use cases; Customer and Workforce and Privileged and Governance. And we're the only one that has this foundation to build from. And we're independent, neutral. We're not trying to sell anything else. We think our identity suite works better together, but that's where it ends. We're not trying to sell other parts of the security stack. We're not trying to sell other applications. We leave that up to the customers to choose the best outcome for them.

Answer – David Gennarelli: Okay. Let's go to Matt Hedberg at RBC.

Analyst: Matthew Hedberg

Question – Matthew Hedberg: Great. Thanks, Dave. Todd, I wanted to circle back on the Governance side of it. It was interesting statistic you gave. And I guess, when you look at the success you've had attaching Governance to Workforce deals, can you talk about the competitive landscape and are there key elements of success this year that you think could parlay to next year? Maybe it's increased partner influence, maybe some additional sales incentives to drive even further, new product attach next year?

Answer – Todd McKinnon: Yeah. I think that the dynamic is in many of these Governance scenarios, there is no solution particularly, I mean, I'm talking about the customer doesn't have a solution, particularly in areas that are not traditional on-premise ERP, legacy technology. So, a lot of times if there is a Governance solution, it's implemented around that legacy on-prem, just big SAP, for example, or big Oracle, for example. And we'll come in and they'll use us for an app that's not that. It's maybe they're SaaS applications and they do governance for that. And they realize that these SaaS applications are becoming more important for compliance and more important for just general security and making sure they access is controlled from a security perspective. And we do a really good job of that.

It's pretty rare for someone to take Okta Governance and replace a deployed in-production legacy governance solution around an on-premise application. And I think that will continue to be rare just because it works. It's like it's checking all the compliance boxes. It's probably not worth changing. And there is an opportunity to just do the use cases around that.

One thing that is interesting is there's a lot of – and I've learned in the governance market in the last few years is there's a lot of software. And so, it's probably not a market where you have to have 25 years of features to win because there's a lot of software in the market. I remember, this is going back a long time now, but when I was working at Salesforce, when I first got to Salesforce and I looked at the product capabilities, it was incredibly simple, especially compared to Siebel, it probably had 1 out of 10 of the features, but it just ran the table because no one use all those features in Siebel. And I think the governance market is like that.

There's a lot of software, a lot of stuff is not implemented in our product, which is very strongly integrated to access management or access management. It's very quick to implement. People get tremendous value out of it fast. It's well integrated to many SaaS applications, and more and more it's integrated to even on-prem applications as we innovate there. And it's fast time to value. And I think that, in this case, is the winning formula. And we're seeing it play out in the market.

Question – Matthew Hedberg: Thanks, Todd.

Answer – David Gennarelli: Okay. Next up, we'll go to Josh Tilton at Wolfe.

Analyst: Joshua Tilton

Question – Joshua Tilton: Thank you, Dave. Brett, maybe one for you. The ongoing seat and MAU pressures that you guys are seeing this year, how does that, if at all, change your visibility into next year? And how are you kind of accounting for that in the guide that you gave today?

Answer – Brett Tighe: Yeah, that's all that's all accounted for in the guide today. It's a good question, Josh. In terms of the – there's two different factors that we're talking about, right? There's the macro. Just overall, companies are just not buying as many licenses. They're scrutinizing licenses. When I say licenses, I mean licenses or MAUs, just depends on which side of the business. And then there's the older customer cohorts. That older customer cohort we think materially is done by the end of the first half of fiscal year 2026. By the way, that's all captured in the guide, so hopefully that helps there, Josh.

Answer – David Gennarelli: Great. Next up, we have Jonathan Ho at William Blair.

Analyst: Jonathan Ho

Question – Jonathan Ho: Good afternoon, and congrats on the strong quarter. Just wondering if you could give us some additional detail on the go-to-market specialization opportunity that you've referenced and maybe help us understand why you see the need to do this now or what's maybe the impetus driving that?

Answer – Todd McKinnon: Yeah. Talked to a lot of people working with Okta and go-to-market models the last five or six years, there's basically two spectrums of go-to-market. There's one end – or sorry, two ends of the same spectrum. One end of the spectrum is everything's general and every rep sells everything. There's no overlays, there's no specialists, there's just general rate model. And on the other end of the spectrum is everything specialized. Every product has its own rep. And there's just total specialization. And the trade-offs are roughly you get more probably productivity and sales performance out of a completely specialized model, but you also get a lot more costs.

So, they exercise is, as the organization grows and the product portfolio grows and the market evolves and the competitive dynamic evolves, how do you put your organization in the right spot on that spectrum to maximize growth and profitability? And so, the simple answer to your question is we think that there is an opportunity for more growth here than we're seeing now. So, part of the initiative to sell – to accelerate growth is we want to do more specialization.

And I think there's some potential for, at least in the short term, some increased costs. But we think it's going to be far outweighed by the increase in growth. And by the way, we're very committed and very focused profitability as well. But I think we have enough room in the business; and based on all our efficiency work and some of the effectiveness investments we've made where we can make the specialization investment and still run at the profitability levels we've outlined and we're comfortable with and still accelerating growth.

So, that's the high level. More specifically, I think it's important to understand kind of more specifically what we're saying here. So, what this means is that we're going to have, instead of sales reps at Okta selling every product, they're going to be more specialized to a product specifically. There's going to be dedicated Auth0 reps and then dedicated Okta reps, and the Okta reps are going to be – we need them because the product is getting quite broad. It's very, very challenging to sell Governance and Privileged Access and Access Management and Customer Identity and, and, and, and they're going to be specialized to sell the suite of Access Management, Privileged Access, Governance, ITP, that suite.

And then the Auth0 reps are going to be focused on Auth0. So, it's developers, it's making sure that every self-service customer that starts to upgrade gets upgraded into a full enterprise deployment because a lot of these small companies turn out to be some of our biggest customers. You all know about our presence in the AI world and how we have very significant customers there that started off as self-service trials. So, products are getting more and more capable. It's very tough for one salesperson to cover them all. We see a growth opportunity and we're going to make sure we take it.

Answer – Brett Tighe: Yeah. I would just add to that, if you think about it, Jonathan, it's really about productivity, right? If we just boiled down to a simple metric, it's AE productivity and we've seen nice gains this year in AE productivity. We think we can make those gains go even further by making this change in a portion of the organization, which goes back to Todd's point is we've built all these efficiencies into the organization, so you can balance with trying to go for more growth while also being healthily profitable as we are and expect to be in FY 2025 and FY 2026.

Question – Jonathan Ho: Great. Thank you.

Answer – David Gennarelli: Next up, we have Joe Gallo at Jefferies.

Analyst: Joseph Gallo

Question – Joseph Gallo: Hey, guys. Thanks for the question. Can you just talk through Customer Identity, its performance this quarter, and how you're thinking about that market growth rate? And then just given all the conversations around specialization, how should we think about the maturity of the channel and its ability to sell that product?

Answer – Todd McKinnon: Yeah. Customer Identity had a solid quarter. I think the – we're very excited it's over $1 billion business now. So, we have the Workforce business, which is well over $1 billion, obviously, and then the Customer Identity business, which is over $1 billion as well. I think that the drivers in that market are somewhat security, but they're a little bit different in the Workforce side. It's less driven by security, and many times just driven by customer experience because there's a large European online retailer that signed up for Customer Identity in Q3.

And you think, it must have been some security or something driving the purchase, but it was just convenience. Their web experience and mobile app had multiple log ins and multiple IDs, and they're trying to consolidate that. So it's an important part of our business. It's growing strong. And as I just mentioned, we think we can grow it even faster with more focus on this developer persona, which we've seen in the past that it's very – the opportunities are huge when the use cases start bottoms up, something new is built, starts to grow, comes into the self-service funnel. Upgrades to enterprise can be quite significant, and we want to make sure that we take advantage of that opportunity.

Question – Joseph Gallo: Thank you.

Answer – David Gennarelli: Let's go to Mike Cikos at Needham.

Analyst: Mike Cikos

Question – Mike Cikos: Great. Thanks, Dave, and thanks for taking the questions, guys. Just wanted to tap into the specialization comment, too. Can you either point to public sector where you guys have, arguably, driven some of the specialization of Americas SMB? I'm sure you guys have your own internal data points you're watching, but what would you point us to, to help us get greater confidence that this specialization is the right approach? Because, obviously, that's informing your decision, but it'd be helpful to get it for us outsiders here. Thank you.

Answer – Todd McKinnon: Yeah. There's a bunch of data points. You mentioned a couple of them. The hunter farmer in the Americas SMB is, there's positive data points out of that. I would say that's relatively small part of the business. I think the public sector and the focus there and the – really, speaking the same language as that buyer is a bigger dataset and sample size, longer-term sample size that we're confident on. And then, part of it too is just watching the sales cycles and sitting through the conversations and seeing the potential on this developer-facing market and seeing how much additional growth we just instinctually think we can see by focus and by dedicated resources on that.

And then, thinking about what's the – like I said before, there's always a trade-off, right? The trade-off is transition costs. Like, what is the cost to make the changes required to get to that model? And then, how is the ramp in growth going to measure against the increase of cost of sales coverage? And we think that in this case, based on all our modeling and all our past experience, that the growth benefits are going to outweigh the costs.

Answer – David Gennarelli: Right. Next up, we have Madeline Brooks of BofA.

Analyst: Madeline Brooks

Question – Madeline Brooks: Good. Perfect. So I think, overall, we can all agree that this is a really strong quarter for you guys. So I think when I take a step back and look at the market, I really want to kind of hone in on this 7% guide for next year. And if I just kind of extrapolate what new bookings was for this quarter, we can kind of get to an assumption that maybe the core Workforce and CIAM markets are growing roughly 5%. So I first want to clarify, that 7%, does that include any upside from new products, or are new products already baked into that guide? And then, just one follow-up question after that.

Answer – Brett Tighe: Yeah. All the products we have today are already baked in there, if that's what you're asking. I think the one that's the most material by far is Governance. Like we've talked about before, we are hopeful that some of those products that we've been describing here today continue to ramp like they have been in the last quarter or two and become more material. But frankly, the biggest new product in there would be Governance.

Hopefully, that helps there, Madeline.

Question – Madeline Brooks: Yeah. And then, so for my follow-up, I guess, if I look at the identity market, both workforce and CIAM, both growing faster than that 5%. I mean, kind of if we analyze performance here, is there anything that Okta can do better to try and just reinvigorate the growth in those core markets, where the market is growing faster and that 5% growth rate would suggest just some share loss there? And that's it for me. Thank you.

Answer – Todd McKinnon: Yeah. It's an important question we think about a lot, because, as I said, our number two priority is growth. And I'll refer to the number one priority, which is security. And I think not having any security issues is going to be a big deal. And we've invested aggressively both in terms of money and in terms of just execution on making sure we have really performed well on our Secure Identity Commitment, which has four pillars. And we can talk about all four, but a big part of it is hardening our own corporate infrastructure. And we're – like I said, we've invested a ton. We've made a ton of progress there.

And as I talk to leading tech companies and CSOs and other CEOs, our internal security posture has made a ton of progress. And I think when we talk about the accomplishments of this quarter, I think one of the most things I'm proud of this year at Okta is our improvement there. We still have more work to do. It's a never-ending investment level to make sure we are one of the most secure companies in the world, but that's something we're very committed to and making sure we continually execute on.

And I think one of the – I'll get back to your question about the growth rates and the market growth, but I think what we're seeing now is that work – that internal work is really starting to translate out into prospect and customer momentum because they're seeing a company that's kind of been through the fire and used and learned a lot and ensuring that with the market now and helping the whole industry defend against identity-based attacks and our own products are very relevant from – I mentioned ITP earlier, not to mention Privileged Access and Governance, and we use those as we lock down our own infrastructure, and customers can learn from that.

And so, that's – I think having a strong security performance in terms of breaches and issues, that's one part of it that can help us gain share in the market and beat these estimates we've put out there potentially. That's one thing.

Second thing is, I think if we do all that and continue to execute well, and we have our – we talked about specialization and talked about some things we're doing to accelerate growth in the go-to-market side. And if we don't grow faster than the market, I would say that the market forecast turned out to be wrong. Because if we do all those things, we're not going to lose share, we're not going to grow slower than the market, and we're going to be just fine. Because if you just talk to customers and if you ask them about their problems and how relevant identity is and if they have solved all their identity challenges, there's still a lot of work to do out there and there's still a lot of problems to solve and still a lot of value to be delivered to customers. And we're going to make sure we're there to deliver that for them.

Answer – David Gennarelli: Great. Next up, we have Shrenik Kothari at Baird.

Analyst: Shrenik Kothari

Question – Shrenik Kothari: Yeah, great. Thanks for taking my question and congrats on the solid execution. So the federal vertical, you guys mentioned, remains, of course, a key growth driver. Half of your top 10 deals were in the sector, which aligns with the year-end, plus your certifications and partnerships and the DC-based team that's translating to comp your advantage. My question is, how are you viewing the structural shifts, like, perhaps in terms of budgets and reallocations that you foresee post the elections starting next year? How do you plan to navigate these? Again, it's still hypothetical, but just any potential disruptions that you might be foreseeing and tied to adversary changes and – yeah.

Answer – Todd McKinnon: Yeah. I think one of the wins, we mentioned the top 10 deals and 5 of them are in the US federal vertical. One of them was a very exciting win at the DoD. And we mentioned a few quarters ago we had our first big DoD win. We followed that up with another significant one this quarter, which is really – it's really a good – positive sign of things to come, in addition to results for the quarter. We also closed a deal – a significant deal in top 10 at the largest healthcare provider for the federal government. So, there's – is a lot of momentum there.

I think it's – identity and security and modernizing some of the identity and the focus that the federal government has had on cyber is kind of apolitical, as much as anything can be apolitical, but it is really – everyone wants to be more secure and everyone knows that nation states have an interest in attacking the federal government and identity can help defend against that and they have to modernize the stuff. A lot of the stuff they're running is quite old, quite legacy. And I think one of the reasons we're seeing a lot of momentum is the – it's like the two-part formula of focus on cyber, and in many cases, a long overdue initiative to modernize some of the tech, and we're benefiting from both of those in the federal vertical.

Answer – David Gennarelli: Okay. Next up, we have Rudy Kessinger at D.A. Davidson.

Analyst: Rudy Kessinger

Question – Rudy Kessinger: Hey, great. Thanks for taking my question. I want to go back to John's first question on the call, Brett, just about removing this additional conservatism in the guidance for the breach, I guess if we look at some of the magnitude of beats and some figures the last couple of quarters, cRPOs, in particular, have been beating 3 to 4 points every quarter. I guess, can you quantify like was there 1 to 2 points of conservatism for the breach on your cRPO guide the last few quarters, or just how should we think about that Q4 cRPO guide, in particular going forward, the level of conservatism in it versus past quarters?

Answer – Brett Tighe: I would say the level of conservatism is both current RPO and the revenue, just so we're on the same page, as well as op margin. It's all kind of all flows together, right? And when I say op margin, I mean both op margin and free cash flow. I don't have an exact quantification for you, Rudy, but like I said earlier, I just don't – it's not going to be 10% to 15% like we did – that that example I gave earlier, which was 10% to this time of the year, now, it's 15% for revenue growth in FY 2025. I just don't – I don't imagine us seeing that given what we can see today. And keep in mind, this is also just the natural maturation of the company. We're just getting bigger, growth is slowing down a little bit. So it's also security incident, but also just the sheer size of our company at this point.

Answer – David Gennarelli: Yeah. Let's go to Saket Kalia at Barclays.

Analyst: Saket Kalia

Question – Saket Kalia: Okay, great. Hey, guys. Thanks for taking my question here. Good to be on the call. Brett, maybe for you, can we just talk a little bit about new logo business in the quarter? I mean, I think we were all prepared for what was going to happen to net revenue retention, but it seems like the new logo part of the business stabilized this quarter. Can you just talk about what drove that and whether that trend is something that can continue going into next year?

Answer – Brett Tighe: Yeah. I mean, frankly, we like the new logo numbers to be higher. I mean, it was 150 quarter-over-quarter. One of the things that we've been obviously working on is the hunter-farmer model to try to improve that. That's one piece of the formula, right? Hunter-farmer is both new logos and also upsells as well. But yeah, we think we can do better than where we are. And frankly, the good news is, is look at how solid results we can produce when really mainly selling cross-sells, right? If you look at the current RPO growth of 13%, total RPO growth of 19%, there's a lot of opportunity inside the customer base at this point. I mean, Todd talked about it earlier with 15% of the bookings coming from these newer products, but ultimately, that's just scratching the surface. We have a ton of opportunity inside the customer base. But to be clear, we want to be able to grow the logo count faster than this. Like I said, the good news is it's – we've done a lot with the larger customers and also create $100,000, the $1 million cohort. So, we've definitely have helped ourselves. But we look at – we look forward to producing, frankly, better than this.

Question – Saket Kalia: Very helpful. Thanks.

Answer – Brett Tighe: No problem.

Answer – David Gennarelli: Next up, we have Patrick Colville at Scotiabank.

Analyst: Patrick Colville

Question – Patrick Colville: All right. Thank you so much for taking my question. I guess Brett and Todd, I mean, if I look back in this year, 2024, to me, the standout success has been Okta's rapidly improving profitability. This time last year, you set the initial guide for op margins in fiscal 2025 at 17%. In the press release, it's now up to 22%, so I guess a 5-point beat. How should we think about Okta's ability to outperform your initial guide of 22% next year? And then also just, I guess, give us some color on how you're thinking about hiring, because it looks like hiring has kind of picked up the last couple quarters. All right. Thank you.

Answer – Brett Tighe: Yeah. From a profitability perspective, one of the things that we've talked about a little bit on this call is we really want to lean more into growth. If you think about the Rule of 40, right, it's the lens we manage the company through for years now. We want to lean more into the growth side of the equation. And so, I wouldn't necessarily expect a bunch of upside. I mean, we've – we definitely set the guidance where we think it's achievable. But we do want to invest into the opportunity because we do see it out there. You've heard Todd's comments throughout this entire call of optimism of how we can go and get more of the market. And so, we don't want to sit here and say, hey, the profitability is maybe way higher than what we've already guided you because we want to go after that huge market opportunity. And we're making obviously all these changes and these investments. Think about security Todd talked about earlier, the product innovation coming off the line has been really good and we think we can expect more of that, the specialization topics we've talked about today, investing more in partners, these are all growth drivers. We really want to get after growth, and we're comfortable with the guidance we've given you here today, both top and bottom line.

Question – Patrick Colville: Thank you so much.

Answer – Brett Tighe: No problem.

Answer – David Gennarelli: Next up is Rob Owens at Piper.

Analyst: Rob D. Owens

Question – Rob D. Owens: Great. Thanks, Dave, and good afternoon. Todd, I want to build on some of the comments that you made earlier and appreciate kind of the overview of where we are in terms of identity. And I think Brett said we should be doing better from new customer perspective, and I – frankly, I would agree. So, where is the market just in terms of being dynamic around customers wanting to switch at this point? We continue to hear identities broken. It's the reason that most of these breaches occur in the first place. So, why isn't that more dynamic? And you've put this hunter-farmer model in nine months ago, and I realize these things take time. But I would expect that 150 kind of quarter-over-quarter number to start to improve here. So, where is the governing factor in that, especially relative to, I think, your broader comments of where identity is right now? Thanks.

Answer – Todd McKinnon: Yeah. Yeah. I think that customer count number is a little bit – it's – shows more about the SMB market, because that, obviously is – the logos are – more logos down there versus if you look at the customer count growing at $100,000-plus, it's up 8% versus the smaller number below $100,000. So, that's one quantitative thing.

But I think one interesting thing about your question is just I was at a dinner last week, I was in Australia travelling, visiting a bunch of customers and prospects down there, and I was at a dinner with a bunch of partners, bunch of systems integrators of ours and talking to them about how things are going. And I was asking them about identity compared to other parts of cyber and what's the dynamic. And they said also the same thing, which is these are people in the trenches doing these deals with customers, rolling out products. They – when they look around and they see what's the easiest to change, it's other things are easier to change sometimes. It's easier to put something on the endpoint, it's easier to change out your firewall. Identity is harder to change. But the upside of changing is quite important, especially when you consider 8 out of 10 breaches are caused by identity. So I think in some cases, it's going to be slower, but we just have to be patient because we have by far the best products. We have – we're in this very unique position where in terms of scale and modern technology and product suite and independence and neutrality, there's no one else out there. And so, we got to just keep executing, keep working hard, keep innovating, keep meeting customers where they are and we'll be just fine with the plans and the strategies and the efficiencies we're demonstrating.

Answer – David Gennarelli: Yeah. Next, we'll go to Peter Levine at Evercore.

Analyst: Peter Levine

Question – Peter Levine: Thanks, guys, for fitting me in. Yeah, maybe, Todd, I remember we haven't (00:55:50) talked about AI, but you're starting to see somewhat of an explosion of like non-identities – non-employee identities, machine identities, bots. Maybe talk to us about what you're seeing across your customers in terms of, A, like the usage around AI and those identities that are coming out of their network, and then, B, from your perspective, like how do you monetize that, right? If there's more identities to protect non-employee identities, like what are your plans over the next, call it, 12, 18 months in terms of monetizing some of the adoption or the initial adoption of AI?

Answer – Todd McKinnon: Yeah. It's – I would say there's four things, and two of them you've probably heard me talk about and two of them you probably haven't. The first two are – the most obvious thing is there's a whole new generation of apps and SaaS apps and innovations that people need to log into. And we're the identity layer from a customer identity perspective and some of the biggest in the world and a lot of smaller ones that you haven't heard of yet but you will hear of. And which is why, by the way, the developer focus is so important because that whole new generation of tech is being built.

Second thing is that we have Okta AI, which we talked a lot about a couple years ago and we continue to work on that, and it's really starting to help these new products like Identity Threat Protection with Okta AI.

The model inside of Identity Threat Protection and how that works is – AI is a big part of the product functionality. So those two, you probably heard me talk about before.

Some really interesting new areas are we have something we talked about at Oktane called Auth for GenAI, which is basically authentication platform for agents. Everyone's very excited about agents as they should be. I mean, we used to call them bots, right? Four, five years ago, they're called bots. Now, they're called agents. Like what's the big deal? How different is it? Well, you can interact with the natural languages and they can they can do a lot more with these models. So now, it's like bots are real and real-time. But the problem is all of these bots and all of these platforms to build bots, they have the equivalent of the monitor sticky notes with passwords on them. They have the equivalent of that inside the bot. So, there's no protocol for single sign-on for bots. They have like stored passwords in the bot. And if that bot gets hacked, guess what, you signed up for that bot and it has access to your calendar, it has access to your travel booking, it has access to your company e-mail and your company data, that's gone because the hackers going to get all those passwords out there. So, Auth for GenAI automates that and make sure you can have a secure protocol to build a bot around. And so, that's a – it's a really interesting area. It's very new, we just announced it, and all these agent frameworks and so forth are new.

But I think it goes back to this idea where there's a lot of profound innovation and new applications and services in the AI revolution, but a lot of it is just a magnification of the same problems, whether it's more apps we need to secure, better customer experiences, more integrated we need to build, not having passwords on our monitors, having single sign-on. In the case of people and in the case of bots, we're relevant in all those things. And it's pretty exciting to watch it happen and see – frankly, it's a lot of potential right now in terms of our business, but the potential is large.

Question – Peter Levine: Maybe just shift just to monetization, how do you plan on charging for that? And if you are, are you charging today? But just really right now like...

Answer – Todd McKinnon: Yeah. There's different like obviously – yeah, monetization, is there's obviously like Identity Threat Protection is a product. So, we sell that. It's an upsell. Auth for GenAI, it's basically like a – think of about it as per machine authentication. So every time – we have this feature called Machine to Machine, which does a similar thing today and you pay basically by the monthly active machine.

Question – Peter Levine: Thank you.

Answer – Todd McKinnon: Yeah.

Answer – David Gennarelli: Yeah. We're at the top of the hour but we're going to try to take a few more here. Let's go to Trevor at JMP.

Analyst: Trevor J. Walsh

Question – Trevor J. Walsh: Great. Thanks, Dave. Thanks for taking the question. Todd, maybe for you, just a clarification and then a question, you made some comments earlier around the context of OIG, and it sounded like maybe for the Privileged Access product, too, around just the competitive landscape. And then, you were initially running into maybe what I would have expected as sort of the standard set of competitors or suspects there. So, curious if that's because you're just not necessarily going after those displacements as aggressively kind of in the field because we know your kind of products have been kind of – you've set yourself kind of 1.0 and not looking to necessarily do that. And if that's the case, kind of as you move into next year and beyond, and that's going to be a stimulant for growth, what do you have – will you just start kind of flipping the switch and going after them more aggressively vis-à-vis competitors or does there need to be...

Answer – Todd McKinnon: I don't think – we don't have to replace SailPoint on-prem for SAP to have a large business. So maybe it's just a little bit of the details there. But I don't think that for us to win, we have to take out SailPoint on-premise. It's just not practical. People, when they get a system installed and integrated and they spend three years, these things are hard to get installed and integrated. And when they spend three years doing it, they're not going to take it out. It's just – it's like I would – if you just want to invest in SailPoint as a long term, it's not going to be a big growth story, but it's going to be a good business for a long time just because they have a good installed base and we're not going to take that out.

But it's also not a very big company. And we think that the market for governance as the – more and more of it moves to cloud and there's better products like ours that are easier to use and more integrated, I think the market – market's eventually 5 or 10 times bigger than what it is now, and we're going to have a big share of that. So that's kind what I'm trying to say.

I think it's a little bit nuanced. It'd be easier to think about it if it was like Okta takes out all SailPoint's business, but it's just not realistic. And by the way, we don't have to. We can cover these new use cases, which, by the way, is kind of the story of Okta. Like, when we started Okta, people said, you can't start an access management company in the cloud. There's not enough in the cloud. You have to do on-prem and you have to, like, take maybe some software and host it. And we said, no, we're going to build a modern thing that's pre-integrated and very flexible and fast to get value from. And that's where the world is headed and that's where we're going to be. So we've taken the same tact with both Privileged and Governance.

And I think if you think about the competitive landscape and the strategy of it, what's the right position to be in, would you rather be starting from Governance and starting from Privileged on premise and going out to try to build a full suite, or would you start from our almost 20,000 customers and building some of these new capabilities around that. I would argue we're in a better position. But I'm sure those other vendors probably have their own opinions, and we'll see who wins.

Answer – David Gennarelli: Okay. Next, we have Brian Essex at JPMorgan.

Analyst: Brian Essex

Question – Brian Essex: Hi. Good afternoon. Thanks for taking the question. Yeah, I want to dig into the new products. It's great to see the traction there. 15% of the bookings is a great result. I want to see if we could peel back another layer. I mean, what percentage came from new versus existing? And how do you think about expanding with new products into existing customers versus larger lands with new products into new logos? Where's the bigger opportunity? And how do we think about the momentum there?

Answer – Todd McKinnon: Yeah. I don't know the exact numbers, but I would, based on my work with the field and working in deals, I would estimate that it was – a majority of that was upsells. But there were some significant new logos. I mentioned the large technology company that had a nearly $5 million ARR deal. That was all on new customer. That was multiple products in the suite. So there are some -- especially in the larger deals, there is bigger companies. And I think what – and it's kind of like a microcosm – or a good example of a lot of things we've been talking about, which is larger companies have their budgets set, they have their initiatives, they have their projects. Even if they're maybe longer term, they're executing on them. They're more likely to do a strategic thing like identity that might have a longer-term payback than a quicker maybe another initiative, there might be quicker payback or not take as much work to get it going.

And the suite we're offering where you can get access in Governance and Privileged from a single vendor is appealing because they realize that they can – they probably have a bunch of different little vendors doing niche things and they can have more cost savings of consolidating. And then, the other thing, too, is that they understand the value of neutrality and they understand the value of technology and how not being locked in can be a big advantage. So I think that's why you're seeing the business naturally gravitate toward bigger companies. And the $1 million-plus cohort now for Okta is $1 billion of revenue, which is great, but I also think we have a ton of opportunity there because a lot of these deals are – I mentioned the big technology company. It's a $5 million deal and that's really like a third of their state. We have a lot of opportunity just in that account. So it's exciting.

Question – Brian Essex: All right. So it sounds still like more of a farmer versus hunter opportunity, but hunter getting some traction.

Answer – Todd McKinnon: Yeah. I think that's probably right. Yeah.

Answer – Brett Tighe: Yeah. I would agree with that, Brian. I would say that the math does suggest it's more upsell than new business. But I think what's interesting is as the products mature, then you're going to be able to land more new customers with them. So it's basically what we've done in every other product category that we've entered. So, we started out with I won't say basic – something that's I want say basic, but like...

Question – Brian Essex: Someone called it 1.0 earlier.

Answer – Brett Tighe: There you go. Okay. That's good.

Answer – Todd McKinnon: There you go.

Answer – Brett Tighe: And then you've got better over time and you started landing with it. We've done it with multiple products now. We're going to continue to do that with these newer products, and we're excited about it going forward.

Question – Brian Essex: Great. It does make sense. Thank you.

Answer – David Gennarelli: Yeah. Let's go to Junaid Siddiqui at Truist.

Analyst: Junaid Siddiqui

Question – Junaid Siddiqui: Great. Thank you for taking my question. You mentioned the Governance solution representing around a third of the contract value, and sold in a Workforce deal. How should we think about pricing uplift with some of your newer solutions like Privileged Access and Threat Protection and others?

Answer – Todd McKinnon: I think on Privileged Access, it's earlier. We don't have as many customers. Governance has – it's close to 1,000 customers. So we have much more data on that. But Privileged Access looks like it's going to be in the same zone in terms of it can be – if there is no Governance or Privilege in a deal, and you add Privileged, it could be a third of – 30% of the value. And then, Identity Threat Protection is probably the furthest along after that, and it's a similar type of uplift to advance multi-factor. So it's a significant type uplift on the deal.

Answer – David Gennarelli: Great. Next, we'll go to Adam Borg at Stifel.

Analyst: Adam C. Borg

Question – Adam C. Borg: Awesome. Thanks for fitting me in. Maybe for Todd, just on the emerging product front. It's great to see the green shoots and the upcoming specialization that we talked about on the call. As we think about fiscal 2026, how do we think about the packaging and pricing side? Any changes there given these newer solutions to coincide with the new specializations that you're talking about? Thanks so much.

Answer – Todd McKinnon: We have a bunch of things we're modeling out and experiments we're doing. I think the main idea is our pricing right now is pretty à la carte, and we're looking at more kind of additions or simplified pricing. We're seeing good patterns of how people buy, good-better-best, and we're looking at some ideas on how to make that easier for customers to consume, not so much pick every option and every specific product one by one.

Question – Adam C. Borg: Great. Thanks so much.

Answer – Todd McKinnon: Yeah.

Answer – David Gennarelli: Okay. We'll go to Fatima Boolani at Citi.

Analyst: Fatima Boolani

Question – Fatima Boolani: Thank you so much for taking the questions. Todd, I wanted to ask you about the international business. Look, the North American business has gotten a lot of TLC with respect to some of the change that you've made from a go-to-market perspective, i.e., the hunter-farmer bifurcation that you talked about earlier in the year. But if you can kind of give us a sense in the juxtaposition of why the international business has slowed down. I think I have some ideas. But if you can sort of comment on what you're seeing in terms of business and demand dynamics.

And then, Brett, anything you can share on some of the metrics that we see across the business? Are they better or worse from an operational perspective when just looking at the international ones? Thank you.

Answer – Todd McKinnon: It's important part of our business that I'm spending personally time international. I mentioned I was in Australia and Asia just last week. I think I'm very happy with the teams there. We've had a new leader in Europe now for coming up on, this will be the third quarter, I believe. And Europe, I think, is – has a little bit of a tougher economic situation in North America. So, some of that – the macro has, as we mentioned before, the macro has been consistent. But I would say over the last three or four quarters, macro – Europe has been consistently tougher than North America.

And so – and then – but in terms of like the opportunity and the push for security and the way the solutions resonate, it's pretty universal. So, I think maybe the – in terms of like team performance and product portfolio and capabilities and focus, I think we have a significant growth opportunity in international and we're set up to execute on it over the next few quarters.

Answer – Brett Tighe: Yeah. I would just add, that's – it's an area that we're really also focused on from a partner perspective, right? You've heard about the MSPs, you've heard about GSIs, all these different – and even the traditional VARs. I mean, there's a lot of opportunity in international that we need to tap into through those partnership channels.

In terms of the metrics, if they look any different, they're not wild. They're different enough to talk about other than what Todd just said, which is from a macro perspective, it does seem to be a little bit more challenging, but that's as much as I've got.

Question – Fatima Boolani: Thank you.

Answer – David Gennarelli: Okay. We'll round this out with last question from Peter Weed at Bernstein.

Analyst: Peter Weed

Question – Peter Weed: Hey. Thank you so much. I appreciate you going over time, and actually, all the questions you've taken. I think one of the exciting things that you've highlighted is you kind of see the light at the end of the tunnel for kind of a peak of the backlog and people downgrading and these types of things kind of in mid-year 2026. Obviously, that's not like a cliff where it like – just like turns off all at once but rather kind of will be a gradual thing over time. If we're kind of thinking about our own models, I mean, is this something where we should think about that kind of occurs over 12 to 18 months where that kind of slowly degrades. And obviously, we shouldn't be taking as the basis, the greater than 120% in ARR that was out there before as maybe where it could get back to. But as the degree of headwind that ends up going away is that 300, 500 basis points of headwind over that kind of 12 to 18 months, like help us dimensionalize some of that so that we kind of think about the timing and where that should have impact.

Answer – Brett Tighe: Yeah. I would say that's a good point about it's not a cliff, it just gets lessened. So thank you for saying that, Peter. So hopefully, everybody heard that. But in terms of the NRR expectations throughout FY 2026, let us get through Q4, biggest quarter of the year for us, and then let us finish our financial plan, and then I'll be able to tell you more about NRR for FY 2026, because we just have a whole lot more information than we do right now. So...

Question – Peter Weed: We're excited for it. Thank you.

Answer – Brett Tighe: Thank you.

Great. Well, thanks, everybody, for sticking with us for the call. Before we go, I just want to let you know that in addition to hosting several on-site and virtual bus tours through December and January, we will be attending the Scotiabank Global Tech Conference in San Francisco on December 10. So, we hope to see you at one of those events. Thank you.

Bye, everyone.

Thanks, everyone.