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Q2 2024 Okta Inc Earnings Call

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PRESENTATION

Dave Gennarelli *Okta, Inc. - VP of IR*

Hi, everybody. Welcome to Okta's Second Quarter Fiscal Year 2024 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.

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 is 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 *Okta, Inc. - Co-Founder, Chairman & CEO*

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Okta continues to build on its position as the leading independent identity partner. Our focus on improving execution and efficiency has delivered solid top line results, along with significant improvements to operating profit and cash flow. Brett will walk you through more of the financial details and discuss why we believe the

macroeconomic environment, while still challenging, has stabilized relative to the last few quarters.

I'll now cover some of the highlights and achievements in the quarter that we believe position Okta for long-term success. I'll start with a few notable examples of customer wins and upsells in Q2, which come from a wide range of industries.

An exciting new win this quarter was with one of the largest shipping and transportation lines in Europe. As the company sought to move more of its workload to the cloud, it lacked a strong identity solution and struggled with the manual and time-consuming processes.

Okta Workforce Identity Cloud, including Okta Identity Governance or OIG, will enable its thousands of employees and partners to seamlessly access company apps and systems while bolstering its security posture and improving compliance.

A Global 100 consumer packaged goods company was an exciting new Okta Customer Identity Cloud win. The company sought a flexible developer-friendly solution that would help improve the experience of their digital customers. The company will be deploying Okta across multiple customer-facing web, mobile and IoT applications as well as across different brands. This is a great beginning with a customer that will have massive expansion opportunities over time.

Ryder Truck Rentals was an exciting upsell. Ryder has been leveraging Okta Workforce Identity Cloud, including Okta Customer Identity solution since 2019 to secure access for its employees and business partners. This quarter, Ryder selected Okta Identity Governance to replace its legacy provider for identity governance, access request flows and access certifications.

OIG was deployed in just weeks. And with the power of workflows, Ryder will significantly improve the onboarding experience for new employees while reducing costs. And here is an example of landing a new customer with OIG as the lead product, a leading global provider of customer experience solutions selected OIG for its extensibility and value. OIG will enable the company to streamline Lifecycle Management, ensure employees have the right level of access to their resources and leverage the power of Okta's workflows platform to customize complex identity governance requirements.

In all, we added 350 new customers in the quarter, bringing our total customer base to over 18,400, representing growth of 12%. New customer growth is an area that we believe is being impacted by the macro environment, which results in a sales environment that is more conducive to expanding existing customer relationships.

The net customer adds also reflects increasing strength with larger organizations and public sector agencies. We continue to see strong growth with large customers for both workforce and customer identity. And we are proud to work with some of the most important organizations in the world, such as ADT, Mars and General Services Administration.

In Q2, we added 125 customers with \$100,000 plus annual contract value or ACV. Our total base of \$100,000-plus ACV customers now stands at over 4,200 and grew 19%. Similar to last quarter, our fastest-growing cohort with customers with \$1 million plus ACV. In fact, we had a record number of \$5 million-plus total contract value deals. And when you look at the total contract value of the top 25 deals in the quarter, the aggregate value was over \$100 million.

Large organizations have incredibly complex environments that require greater flexibility. Yesterday, we announced Okta for Global 2000, which is the industry's first identity architecture that gives companies the flexibility to choose which business units, processes and technologies to run centrally and which to decentralize.

Flexibility was built into Okta's core architecture from the beginning. Okta for Global 2000 makes it even more flexible with enhanced security controls and ease of use. It's a very powerful competitive differentiator against monolithic platforms that force companies to work only with their technology stack. This solution has already been a critical component of large, new and upsell transactions.

A great example of this is a long-time Okta customer NTT DATA. Their hub-and-spoke deployment includes 1 central engine as the hub that powers the various Okta organizations in NTT DATA's identity ecosystem. Okta for Global 2000 provides NTT DATA with the ability it needs to manage a distributed set of users with separate domains and IT environments.

Product innovation has long been core to Okta's success, and this is a banner year for new products. We continue to be enthusiastic about the early customer reception and momentum of Okta Identity Governance. We've been pleasantly surprised at both the size of the organization's purchasing OIG as well as the range of scenarios that OIG is brought on for from replacing homegrown solutions and competitive displacements to being deployed alongside an existing identity governance vendor.

It's particularly encouraging to see that nearly half of the OIG business booked in Q2 came from customers that hadn't previously purchased Okta Lifecycle Management or workflows, which were the building blocks of OIG. And we continue to see significant spend uplift with customers buying OIG as it's typically 1/3 or more of their total Workforce Identity Cloud spend.

Another notable OIG customer win was with Grubhub, a long-time Workforce Identity customer. They added both Okta Identity Governance and advanced server access to their product suite to reduce manual upkeep and bolster security of servers and on-premise applications.

We also continue to look forward to the launch of Okta Privileged Access or OPA later this year. Since our update on the Q1 earnings call, OPA has moved from beta into early access.

Okta Device Access is another product in early access that we're excited about. This extends Okta's seamless authentication experience to protect the first vulnerable user touch point, the device login. According to the 2022 Verizon data breach investigation report, among security incidents associated with misplaced or stolen devices, 60% are desktop or laptop computers. These devices remain the last frontier where access to corporate resources are protected by just a password. This means that sensitive information such as locally-stored documents and logged-in applications are at risk.

Okta Device Access enables identity powered MFA immediately when a device is powered up and when attempts are made to unlock the device. This has been one of the most highly requested capabilities by our customers in the last year. This is also timely. It's just last month, the White House held an MFA modernization event. Organizations desire this technology as an added layer of security, which as an extra benefit may help reduce their insurance risk premiums.

I mentioned NTT earlier as part of Okta for Global 2000, and I'm excited that they're also an early adopter of Okta Device Access as they continue to build upon their Zero Trust security strategy. We'll talk more about our products in our road map at Oktane, which we're hosting in San Francisco, the 1st week of October. At the event, we'll go into more detail about what we're working on in the biggest area of technology interest in decades, AI.

AI is a paradigm shift in technology that is transformative opportunities for identity, from stronger security and faster application development to better user experiences and more productive employees. Okta has been utilizing AI for years with machine learning models for spotting attack patterns and defending customers against threats, and we'll have more exciting AI news to share at Oktane.

Just like how every company has to be a technology company, I believe every company must have an AI strategy. More companies will be founded on AI, more applications will be developed with AI and more identities will need to be protected with a modern identity solution like Okta. A great example of this is how Okta's Customer Identity Cloud is being utilized for the massive number of daily log-ins and authentications by OpenAI, which expanded its partnership with Okta again in Q2.

And finally, I want to share some bittersweet news. My dear friend and co-founder, Frederic Kerrest, will continue to serve as Vice Chairman of Okta's Board of Directors that will not be returning to Okta in an operational capacity. His contributions to Okta cannot be overstated. Of course, we'll remain highly connected, and I'll continue to work closely with Freddy as he provides guidance and helps formulate our strategy from his Board seat and remains committed to helping Okta achieve our long-term goals. We're all very happy for him and forever grateful for what he's done for Okta. I look forward to my continued partnership with Freddy in the years ahead.

To wrap things up, we're pleased with our overall performance in Q2 and the advancements we made in execution and efficiency. It's always a good reminder that identity is a key building block for Zero Trust security, digital transformation, cloud adoption projects and

now AI. These trends will continue in any macroeconomic environment as organizations look for ways to become more efficient while strengthening their security posture.

We're still very early in what we believe is a massive addressable market, and we're positioned to expand on our success because of Okta's independence, neutrality and ability to deliver a unified platform covering customer identity, access management, governance and privileged access, all while committing to delivering profitable growth over the long term.

Now here's Brett to walk you through more of the Q2 financial results and our outlook.

Brett Tighe Okta, Inc. - CFO

Thanks, Todd, and thank you, everyone, for joining us today. We're pleased with how quickly the actions we've taken to drive efficiency in our cost structure have taken root. As Todd noted, we're achieving these results while investing in our platform and business to fuel our future growth.

I'll review our second quarter results and our outlook for Q3 and FY '24, but first, I'll start with some commentary on the macro environment. While macro headwinds, including a minor FX headwind to revenue continue to impact our business, we believe the environment stabilized in Q2. Our view is based upon trends stabilizing or modest sequential improvements in contract duration, average deal size, the split between new business versus upsells and seat expansion within upsells and renewals.

Pipeline build was also healthy, but new pipeline continues to be skewed towards upsells. We also experienced further improvement in metrics related to our go-to-market team, including average tenure, ramp in the number of sales reps closing Workforce Identity and Customer Identity deals. While these are all encouraging data points, we believe it's prudent to maintain a cautious near-term outlook.

Turning to Q2 results. Total revenue growth for the second quarter was 23%, driven by a 24% increase in subscription revenue. Subscription revenue represented 97% of our total revenue. International revenue grew 18% and represented 21% of our total revenue.

Looking at the ACV split between Workforce Identity and Customer Identity. Workforce ACV grew 22% and represented 61% of total ACV. Customer Identity ACV grew 29% and represented 39% of total ACV. Over the long term, we expect the mix to trend towards 50-50 with healthy growth in both.

RPO or subscription backlog grew 8%. The general shortening of contract term lengths signed over the past several quarters has impacted total RPO growth. However, in Q2, we are pleased to see a modest sequential increase in contract term links. Our overall average term length remains just over 2.5 years. Current RPO, which represents subscription backlog, we expect to recognize as revenue over the next 12 months, grew 18% to \$1.77 billion.

Turning to retention. Consistent with prior quarters, gross retention rates remained strong in the mid-90% range. Our dollar-based net retention rate for the trailing 12-month period remained strong at 115% and was driven by both upsell and cross-sell activity. Similar to last quarter, the sequential downtick in the net retention rate was a result of the macro environment, where customers are not expanding seats at the rate they have in recent years. We believe this trend will persist in this environment.

I'll reiterate that the net retention rate may fluctuate from quarter-to-quarter as the mix of new business, renewals and upsells fluctuates. As I've noted previously, we've experienced a macro-related shift in our business mix to more upsell and cross-sell versus new business. Before turning to expense items and profitability, I'll point out that I'll be discussing non-GAAP results unless otherwise noted.

Looking at operating expenses. Total operating expenses for the quarter were lower than expected. The better-than-expected profitability is primarily due to revenue over performance and our continued focus on spend efficiency measures. Total headcount at the end of Q2 increased slightly to approximately 5,800.

Q2 free cash flow was \$49 million, yielding a free cash flow margin of 9%. Free cash flow was significantly better than expected, driven by billings and strong collections. During the second quarter, we opportunistically repurchased \$142 million of our 2025 convertible debt

notes and \$242 million of our 2026 convertible debt notes. This resulted in a \$42 million GAAP-only gain.

Over the past 2 quarters, we've repurchased \$750 million of debt, resulting in a \$73 million GAAP-only gain. We will continue to regularly evaluate our capital structure and capital allocation priorities. Our balance sheet remains strong, anchored by \$2.11 billion in cash, cash equivalents and short-term investments.

Now let's turn to our business outlook for Q3 and FY '24, which factors in the current state of the macroeconomic environment. As a reminder, we've taken several actions to reduce our cost structure and increase our efficiency as an organization, which will benefit margins this year and beyond.

With that as a backdrop, for the third quarter of fiscal year '24, we expect total revenue of \$558 million to \$560 million, representing growth of 16%. Current RPO of \$1.780 billion to \$1.785 billion, representing growth of 13%. Non-GAAP operating income of \$53 million to \$55 million and non-GAAP diluted net income per share of \$0.29 to \$0.30, assuming diluted weighted average shares outstanding of 180 million.

For FY '24, we are raising our revenue outlook by \$30 million at the high end of the range. We now expect \$2.207 billion to \$2.215 billion, representing growth of 19%. We are raising our outlook for non-GAAP operating income by \$50 million to \$215 million to \$220 million, which yields a non-GAAP operating margin of 10%.

Non-GAAP diluted net income per share is raised to \$1.17 to \$1.20 assuming diluted weighted average shares outstanding of 179 million. And we are raising our free cash flow margin outlook for FY '24 to 15% from 12% previously. On a dollar basis, that's a raise of approximately \$70 million.

Lastly, I want to provide a few comments to help with modeling Okta. We are applying a static 26% non-GAAP effective tax rate for the fiscal year. We expect free cash flow margin in the low double digits in Q3 and to continue to grow into the mid-teens in Q4.

To wrap things up, we're optimistic going into the second half of the fiscal year. While the pressures of the macro environment remain, we are confident that we've set the path of profitable growth for years to come. We continue to focus on initiatives to drive the top line while making significant progress to drive improvements to our operating and cash flow margins.

And finally, we're excited to see everyone at Oktane. In addition to all the great things we'll be talking about on the product side, we'll be hosting an executive panel session for analysts and investors with Todd, myself, and Eugenio Pace, our President of Business Operations.

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

QUESTIONS AND ANSWERS

Dave Gennarelli Okta, Inc. - VP of IR

Thanks, Brett. I see that there's quite a few hands raised already, and I'll take them in order. (Operator Instructions) So first up, we'll go to Rob Owens at Piper.

Robbie David Owens Piper Sandler & Co., Research Division - MD and Senior Research Analyst

Great, Dave. I was hoping you could talk a little bit to unpack for us the guide and just the sequential change. When you're talking about the macro, you mentioned stability, but still having a level of conservatism. And so as we see this stability, a, can you help explain just the sequential in the guide. And b, maybe speak to some of the metrics relative to customer count, large customer metrics, when those should turn the corner, net retention rates, cRPO as well?

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

Rob, we're really happy with the results in the quarter, particularly a couple of the things you mentioned, the large customer momentum. We had -- the top 25 deals were over \$100 million of TCv in the quarter, which is super, super strong. We also -- you mentioned the

customer counts, and it's definitely an area that we think is related to macro.

Our customer adds and -- are really influenced by the small business part of our -- the small SMB part of our business. And we looked into that, of course, and we manage that closely. And we look at the logo churn in that number. It's very consistent with the last several quarters. And I think what's happening is that smaller businesses aren't making new purchases. And I think as the economy picks up from here, we think eventually it will pick up. We're not sure when, but as it picks up, we believe that, that part of the logo count will increase.

On the high-end customers, the \$1 million-plus ACV cohort was one of our strongest quarter ever for that cohort, including some big new wins. We had one of the leading global companies in customer experience and support, signed a completely new customer to Okta over \$1 million ACV deal and it was all around OIG. So we're seeing a lot of new business momentum in the largest companies in the world, which is pretty satisfying.

So yes, a lot of good stuff to point to in the quarter, but I think the macro environment is still -- while stabilizing, it's still not as healthy as it could be for us, and our business is reflecting that to some degree, especially the forward outlook.

Brett Tighe Okta, Inc. - CFO

Yes. I would just add to that, Rob. We talked about the big deals. We actually had one of the biggest -- one of the strongest big deal quarters ever in the company's history. So we talked about some staff, but it's just in general, it was a very strong big deal quarter. But not just -- that wasn't the only highlight. There's a bunch of highlights. I mean, Todd talked about it about customer identity participation. That's up into the right. So a lot of good things we're seeing in the business. A lot of great execution by the go-to-market team that we're really proud of in spite of this macro headwind.

In terms of your question more specifically on the current RPO guidance itself, really, I mean that is a reflection of what we were just talking about in terms of the macro headwind. Yes, it did stabilize in the quarter, but we're being prudent with our outlook at this point, given it is still a significant headwind for the field in terms of growing the business.

Dave Gennarelli Okta, Inc. - VP of IR

Great. Next up, let's go to Ittai Kidron at Oppenheimer.

Ittai Kidron Oppenheimer & Co. Inc., Research Division - MD

Solid numbers. I guess, Todd, maybe you could give us a little bit more color on OIG and maybe kind of parse it by the customer base. First of all, just to clarify, the supply is just a workforce customers, correct me if I'm wrong, but maybe you can dig a little bit into the installed base, what percent of your base already had the first couple of modules of the platform before?

And how adding the latest component change the dynamics from a demand standpoint? I'm just trying to get a sense of how much of this was greenfield versus there was already a pent-up demand for it, number one.

And number two, with the incremental new module what is the upside just to that incremental to the existing base? I know the whole platform can add a lot, but it sounds like you already have a lot of customers on this. So trying to get to the delta here of upside.

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

The first thing you asked about, you said it applies to workforce. It's -- I mean, OIG, we can sell OIG to any customer. So OIG is a great upsell for customer identity customers. It's not as directly integrated to that part of the business because usually, that's managed by a separate team and kind of a separate process. But we sell OIG to customer identity customers and that's a good expansion point in terms of increasing the value of the whole customer. But the real synergy is with the access management product. It just makes a lot of sense. If you think about the system that is controlling and doing access management for which applications you can access at work, just makes sense that, that tightly integrated governance system, which actually does the approvals and the routing to your manager to prove you can get a new application or a new resource and then report to your auditors that you indeed have the right access. That's just as a tight bundle and it's like technically integrated tightly with the access management.

But when we look at our go-to-market and the ability to sell OIG, we have a bunch of customers that just have Customer Identity Cloud. And in many cases, we have the potential to land the first workforce deal with OIG. So it's an upsell to that Customer Identity Cloud customer, but it could be the first entry of the Workforce suite.

So in terms of like the penetration and so forth. The product is off to a very strong start. It's been generally available for a few quarters now. It's exceeding our expectations and not just in terms of numbers and revenue, but also it's exceeding our expectations in terms of the companies that are deploying it alongside of legacy governance products, but also the competitive displacements.

I think the competitive displacements are something that we didn't think would happen this early to this degree, but we're seeing more of those than we expected. There was a good win, Ryder Truck Rentals, which is a Fortune 500, Global 2000 company you've all heard of. It was a -- they had a legacy product, and they looked at OIG because we're -- we have other workforce products in that account. We're helping them with those. They looked at OIG about a year ago and decided it wasn't feature-rich enough or wasn't -- couldn't do what they needed to do. But they were struggling with some of the enhancements on their legacy product and they ended up bringing in OIG this past quarter to replace their legacy products.

So that's a pleasant surprise as well. So it's -- we feel really good about this product. And we're also really excited about the next entry in the Workforce suite, which is Privileged Access. So Okta Privileged Access, which is on schedule, it's progressed from beta to early access. It's got a couple of dozen customers using the product, having success with us. It's built out and it's on schedule for the general availability in Q4 of this year. So lots of exciting stuff in the entire product suite. And then specifically on the workforce side, those 2 examples are pretty exciting.

Brett Tighe Okta, Inc. - CFO

And then one more thing, Ittai, I just wanted to clarify, hopefully, you heard it earlier. But in terms of spend and upsell amounts that we're getting out of this, it's really about 1/3 on average. And the customers who have it. It's about 1/3 of their total workforce spend right now. So it is a significant potential upsell in the entire 18,400-plus customer base. So we're excited about the opportunity as we move forward.

Ittai Kidron Oppenheimer & Co. Inc., Research Division - MD

Can you tell us how penetrated are you into that 18,000? Like what percent already have this?

Brett Tighe Okta, Inc. - CFO

There's still a lot of opportunity to go.

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

It's a new product. I mean the component it's -- as you -- the Lifecycle Management part of the product, and there's the workflows part of the product. And then there's the -- really what rounds it out is the access certifications and the access requests part of it. The penetration rates in our installed base is the highest, as you know, for single sign-on and multifactor authentication. And then the next highest but not nearly as close -- nearly as penetrated as multifactor or single sign-on is Lifecycle Management, then the next highest is Workflows. And then there's only a few -- just the companies that have governance, the SKU governance actually have the certifications and the access requests. So there's a lot of room to run here and we're really excited about it.

Dave Gennarelli Okta, Inc. - VP of IR

Let's go to Joe Gallo at Jefferies.

Joseph Anthony Gallo Jefferies LLC, Research Division - Equity Associate

Nice quarter. SIEM held in really well with ACV growing 29% year-over-year on tough comps. How should we think about the durability of that business? Is the sales force more at ease selling it now? And then you noted broad macro stabilization, does that have an outsized impact on SIEM?

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

The data that we have for this quarter and the data we look at pretty closely in terms of your question about the sales force's comfort with it with Customer Identity is that there's more reps doing Customer Identity deals. So that is at a healthy level, just the participation, which conveys a lot of things. It conveys the reps familiarity with it, their ability to execute the opportunities, et cetera, et cetera. So that we're comfortable with that.

Overall, I think that the opportunity for customer identity is it can be as -- ultimately, it can be as much contribution to the revenue as Workforce. We strive for a 50-50 split over the long term, and we think they both should be growing, but both markets are big and they both should be growing quickly. So we think it has a lot of durability. It is different in that it's more -- as we've talked about before, it's more of a build versus buy. The competitive dynamic is different. It's not really -- it's really -- the developers are choosing to buy something versus open source or build something themselves versus the Workforce Identity side has more established players, legacy players. There's companies that are more used to buying a solution there.

And there's a different dynamic with the big platforms offering Workforce Identity along with their apps and services and trying to get customers locked into their whole stack. So there's different dynamics, but we think both are big and both are -- have a lot of room to run.

And if you look at our strategy, our strategy is we are the leader in identity, and we're the only at-scale independent and neutral player in identity. And so our strategy is to double down on that by, first of all, covering all the identity use cases. So it's really important that we cover a customer, all the parts of workforce and go to the market and say, "Listen, identity is a key part of your technological infrastructure. It's a key business driver for you, and you should really bring up the level of your identity partner to some of the biggest clouds you spend money on." And we do that by offering the full suite of products and plus, and very importantly, we're independent neutral. So we're not going to foreclose choices of cloud infrastructure or security tools or collaboration tools because we have a horse in the race in terms of what we favor from our identity. We're going to give customers choice.

And that's resonating, and that's -- especially with the larger companies, which have very complex technological environments and a lot of people and a lot of -- a lot to gain by getting identity, right? And I think that's what you're seeing behind some of the results.

Dave Gennarelli Okta, Inc. - VP of IR

Adam Tindle at Ray J.

Adam Tyler Tindle Raymond James & Associates, Inc., Research Division - Senior Research Associate

Todd, thanks for confirming the Privileged Access product for GA in Q4. Wondering kind of a 2-part question. One, if you could give us maybe any feedback that you've gotten in that early access and if you could compare it to the OIG product, just to put it in context for us, that would be helpful.

And then secondly, if we kind of zoom out to a bigger picture, you've often talked about a unified platform of identity. And if I fast forward, you're going to have workforce, customer, OIG and the PAM product sort of a holistic platform. Wondering what that enables, if you consider new go-to-market like bundling. And any update on the head of go-to-market alongside that would be helpful. Sorry, so many questions in there, but hopefully, I get them all.

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

Yes. If I can remember them all, I'm going to be very proud of myself. First question was comparing Governance and Privileged Access, they're very similar in terms of the reception of the beta now with Privileged Access to move into Early Access. So the similarities are the -- really, the value of the big value driver of the solutions is how natural it is to be integrated to access management.

So for example, with Privileged Access, you're going -- you're using Privileged Access to manage access to these resources like servers and containers and root accounts on servers. And the fact that, that's integrated with the system for these companies that does all of their access management, for all their employees, for all their apps, and very importantly, the fact that it's tied into the Governance

system, so you can actually do a workflow approval on who should get access to a container or a server, the same way you do a workflow approval on who should get access to a finance app or a collaboration app and more -- and probably more importantly, your auditors can see a single report that attest to the fact that the following people have the right access to all the resources, whether they're servers, containers, collaboration applications or finance applications, that's really appealing. It's really appealing.

So I think we talked about last call that it's a little bit unfair to compare the OIG Early Access to the Privileged Access because Privileged Access is coming second, and it's benefited from the fact that the OIG features are integrated on top of it. So that's really positive.

I think that the Privileged Access is a little bit different in that I do think traditionally, that a big decision maker for privileged resources and what -- who controls them and who accesses them was the infrastructure team, which is a new audience for us. The infrastructure team in the past has done a little bit with Okta, but it's a little bit of a new audience. So that's why we're really relying on our appeal to the -- or our resonance with the Chief Security Officer and the CIO, which in more organizations a security -- the security risks get more prominent and people and Boards of Directors and CEOs are really trying to lock this down.

We believe that the strategy of appealing to the Chief Security Officer to really have an umbrella approach across all of the company security, their infrastructure all the way to their employee systems will resonate. So it's pretty exciting, and we're off to a good start there, I think.

Your question about the broad platform, we talked about Workforce, and we actually -- our parlance as we put Governance and Privileged under Workforce, it's under the same umbrella. And then Customer Identity, of course, is our second major cloud. You talked about what does it mean for go-to-market. I think our go-to-market structure is set up to take advantage of it. So we have 1 sales team that's the tenure of our sales reps and their participation in deals in terms of both clouds is -- are at levels that we're happy with and comfortable with, which is a great sign.

The tenure, the ramp and the experience of the ability to do broad deals across the suite is healthy, and which means that as the economy starts to improve and our message starts to resonate more, that's going to be -- really help us in the future, get back to really high levels of scale and growth that we think are possible in this big market.

Adam Tyler Tindle *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

How to go to market?

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

I knew I forgot one, sorry. The search for go-to-market President is progressing. It's -- we're meeting a ton of people. It's a really important search to get, right? The next really 3 to 5 years of what we're trying to do. It's important that we find the right person in that role. So we're meeting a bunch of candidates. We're not ready to announce anything yet, but it's a super important thing for us to focus on and get right. And I can't wait to give you an update as soon as the events warrant it.

Dave Gennarelli *Okta, Inc. - VP of IR*

Great. Next up, let's go to Anushtha Mittal at RBC.

Anushtha Mittal *RBC Capital Markets, Research Division - Associate*

I'm Anushtha on for Matt Hedberg. I wanted to ask a question on the legacy replacement opportunity for Access Management. It feels like there are some large legacy replacement deals starting to come up for grabs. So how do you think about this opportunity? And what are some catalysts that can help shift customers away from these legacy vendors to beyond the platform?

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

I think it's a really insightful question. I think it's -- if you look at the growth drivers and the potential -- the market potential in the TAM being realized for Okta, it's a really big factor. The fact that it's traditionally been -- the way you do identity is you have a big on-premise installation, and you control it yourself and you -- it's in your data center, it's legacy software. It's really tightly coupled with the stack, whether it's Oracle or IBM. And that's on the workforce side.

And then on the Customer Identity side, it's really build it yourself. Maybe it's open source, maybe it's just build your own password, checking and registration form and roll your own. And so those 2 together are really, as we think about catalysts in the business and long-term drivers, those are really important. When we talk about secular trends, cloud and digital transformation, we're really talking about these kind of things, like the people have a bunch of on-premise technology, and they want to use on-premise technology to manage it. And the more they move to the cloud, the more likely they are to choose a cloud, modern next-generation solution like Okta.

So I think there's 2 dimensions that you asked for catalysts. I think there's really -- one dimension is what we talked about the time. It's like more cloud technology more. I was talking to a big customer earlier this week that the real catalyst for them to look at their workforce -- reevaluating their Workforce Identity platform was really that finally, they're getting to public cloud. They're taking tons of workloads onto their own data center and moving into public cloud. And that just changed a bunch of stuff where it didn't make sense anymore given that they were going to some SaaS applications and they were building some new applications and the way the network was going to work and the way their security perimeter was going to work. It just didn't make any sense anymore to have the legacy solution.

So that's a catalyst. The second catalyst is the products are getting better. So it's the fact that we have Privileged -- the fact that Privileged Access come in GA in Q4. The fact that we have Okta Identity Governance starting to roll out, the fact that this is a big one. Okta is the only identity management provider. This is a workforce feature or a workforce capability that can do phishing resistant authentication across every client device, across all applications in a comprehensive universal way. That's a huge differentiator.

So when you look at some of these big deals starting to move, it's not enough to do it just on Windows and just on some applications, Okta can do phishing resistance everywhere. And a lot of the security breaches are just phishing. And it's like phishing multifactor authentication methods that aren't phishing resistant, like SMS, SIM swapping, you've heard of that or it's they do a phishing of a onetime password number, there's all kinds of creative things. We have the only solution that's phishing resistant, it's across all platforms.

And so the product is getting better, too. So I think those 2 things are going to help us continue to take advantage of this big opportunity we have over time.

Dave Gennarelli Okta, Inc. - VP of IR

Next up, we have Eric Heath at KeyBanc.

Eric Michael Heath KeyBanc Capital Markets Inc., Research Division - Research Analyst

Todd, I guess just for you on the execution side. Just curious where you think we are in terms of what I think on the execution side and maybe what's left to go. That's just the first part.

And the second one, I just wanted to follow up on OIG. How much of the sales force at this point has kind of enabled to sell OIG? And are you starting to feel the confidence yet to kind of get more aggressive in kind of rolling this into the playbook and start to do more displacements and go to the enterprise installed base?

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

I'm assuming on the first question, what inning we're in for execution? I'm assuming you meant kind of like customer identity cloud integration, rep attrition, some of the stuff we talked about in the previous quarters. I think that is behind us. And I think when we look at the clarity of the message of our 2 clouds, the participation rate of reps in the Customer Identity cloud deals, I feel comfortable with those things.

The overhang or the question there is what is the macro impact and how long will it last? Because the -- because our overall -- we think our go-to-market and our sales team can be more productive. We think it's -- first of all, you can always get better. There's all those things we're doing to increase productivity and get better and striving to be better tomorrow than we are today. But I think the macro is a question mark there. We have our thoughts and our assumptions in the forecast and in the models, but I think that the degree to which

our productivity is trading off between macro and what the potential is, I think that's -- we'll have to see how that unfolds.

And I think frankly, we're taking a pretty conservative approach there, assuming that the macro is going to be kind of is what it is for a while. And we don't think it's going to get any worse, but we don't think it's going to get better tomorrow either. So we're being pretty conservative on that.

Brett Tighe Okta, Inc. - CFO

I would just add on that. I think one of the highlights there, Eric, is the cross-selling tailwind that we've been receiving. So that really highlights the team is executing and be able to deliver the value prop and deliver the value to the customers. And I think that's a really good indicator of why things are working so well because we have been doing some great cross-selling over the last few quarters. Thanks in part to what Todd has been talking about around releasing governance, obviously, device access came out this last quarter and is adding to that as well. But it's -- I think it's just a combination of the products continuing to roll off the assembly line, if you will.

And also the improvements we're making on the product plus the execution from the field, just really improving, thanks to those tenure statistics that Todd was mentioning as well as the ramp percentage now really at a very high level. So we're pleased with that. The team has really been executing. We're pleased with it.

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

And you also asked about the -- how much of the sales team is ramped on governance, Okta Identity Governance. I think that it's like any new product and a product that is still early in its life cycle and go-to-market but exceeding our expectations. There's still more ramping and more education and more comfort in how the sales team is comfortable qualifying the opportunities, executing them. They're still ramping that's left to do there. And I think that will continue really at scale and continue to ramp through next year.

The reality is we have a good sales team and a decent amount of sales capacity. And to get it is fully comfortable selling governance as they are with the rest of the products, is going to take several quarters. But once it does, we have a great ad scale sales team to take it broadly to market.

Dave Gennarelli Okta, Inc. - VP of IR

Next up, let's go to Eunji Song at Morgan Stanley.

Eunji Song Morgan Stanley, Research Division - Research Associate

Just a quick one from me. Could you just remind us of how big the federal vertical is for Okta? And -- have you been seeing an uptick in momentum in this vertical in the last quarter as you achieved FedRAMP High?

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

The federal vertical is really a key important part of our strategy. It's not just a big IT spend. But it's also -- they have very direct mandates to use multifactor and to invest in modern identity solutions. I was -- I spent about a week in Washington during last quarter. And one of the really interesting things I noticed about the -- I mean, it was a reminder but I've known it for a while, but they're probably all of -- a lot of most industries or most verticals, they're probably the most -- they have the most formal programs around identity. All the big agencies have a formal office or department around identity. So I think they're just mature in how they think about it, and they're modernizing like everyone else.

So it's a really big opportunity for us. You mentioned the certifications. We did last quarter, actually 2 quarters ago, we received our FedRAMP High authorization, which is really exciting, and we have a bunch of marquee customers that sponsored us that for that authorization, and we're excited to move forward with that.

We also have the ability to -- on the military side, we have the ability to service IL5 workloads, which opens up more of the Department of Defense and some of the more sensitive military sides and we have great customers there. So it's a really important part of our strategy, and it's a big part of our focus.

The other part of the business that's important is the state and local government. So between federal, state and local government, they need identity, and we're doing very well in those verticals, and it's a big area for our focus.

Brett Tighe Okta, Inc. - CFO

And I would just add, it's -- we're still in the early innings. We still have a lot of opportunity there. So keep that in mind.

Dave Gennarelli Okta, Inc. - VP of IR

Let's go to Stefan Schwarz at BTIG (sic) [Wells Fargo].

Stefan Alexander Schwarz Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

Wells Fargo, actually. I'm on for Andy Nowinski. I wanted to ask about OIG. First, could you give us an update on how many customers you have using it now? And -- just if there's any color you could give on how they've been able -- how the product has been able to surprise you in terms of competitive displacements that you mentioned you weren't expecting? And just your thoughts on how sustainable you think that is going forward?

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

Yes. The number of customers has exceeded our expectations significantly. Also the size of the deals, it's -- they're deal sizes are very positive surprise on the upside, which is great. What we're seeing is that the -- it's usually 1/3 of the increase of 30-plus percent on the workforce spend. So if you're spending the dollar on workforce, you add governance, you're paying \$1.30 or more. So that's really encouraging.

And I think I mentioned the example, one of -- the other couple of surprises about -- we thought it would be mostly a greenfield thing. We think the market for Governance is very underserved because of solutions, legacy solutions haven't been that good. We think we have a better solution. It's super fast to roll out. It's very integrated with access management. It connects great, integrates great with the ecosystem like we're really well-known for on the access management side.

And I think because of that, we think we can make the market bigger. But I mentioned the example of Ryder Truck Rental, that was a competitive displacement. They had a legacy provider. They looked at OIG a year ago, didn't think it was up to snuff. They got kind of frustrated with the progress on their legacy provider and they displaced it with us. And they were rolled out and haven't seen value from it very quickly. So I think stories like that are really encouraging. I think that being said, it's still pretty early, both in terms of the potential it could have and -- which makes it very exciting as the strategy comes together on the workforce side.

Dave Gennarelli Okta, Inc. - VP of IR

Yes. Let's go to Shaul Eyal, TD Cowen.

Shaul Eyal TD Cowen, Research Division - MD & Senior Analyst

Congrats. I want to double-click on Brett's commentary on contract duration, seeing sort of stability, maybe even improvement -- is that driven by additional modules? Is that driven by pricing? And maybe, Todd, just to order about the competitive landscape, Microsoft, some other companies out there. Appreciate it.

Brett Tighe Okta, Inc. - CFO

Yes, I'll take the first part and let Todd take the second part around the contract duration. Contract duration did tick up slightly in the quarter. It's really a product of those big deals, right? So you heard about all the big deals we closed in the quarter, and bigger deals typically come with bigger duration. And so the success we had in enterprise and strategic and of those large deals, that's really lending itself to have a slight uptick in that contract duration in the quarter. So we're pleased with how things trended there.

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

Yes, on the competition question, something we obviously think about a lot or I think every company and enterprise market thinks about it. And we analyze a lot of data. And I'll give you the kind of the quantitative answer. The quantitative answer is that the competitive environment is very stable, has been for a few years now. And I think that the numbers we look at our win rates and so forth. We also look at the gross retention rate, which remains healthy. We look at -- you're always kind of looking around at the deals you're not in.

It's hard to get a sense for the deals you're not in. But what we're seeing is that based on all the numbers we see especially in large enterprises, the pipeline is there. We're able to convert it. We're able to offer a broad solution that gives customers choice and flexibility. Those are all the numbers we look at.

On the qualitative side, it's really -- and this is more like when I have conversations with big customers, big government agencies, what they're trying to do, it's really 2 things are really important competitively. The one thing is that companies and organizations are seeing identity as critical. They're seeing it as the way they can get really tight on their cyber posture. They're seeing it as a way they can innovate quicker, deliver better solutions on the customer margin side, and it really matters.

When you're talking about being a strategic partner with a strategy to try to have a broad platform and deliver all these use cases, the first thing that has to happen is that the customers have to really think it matters. And because of all these trends we've talked about and the value we can provide, identity really matters.

The second thing is really important, which is, is the -- how integrated the identity system is to the rest of the ecosystem? Do customers perceive that as facilitating choice and flexibility? And that is -- the conversations are really positive on that. They're really starting to see that we announced earlier this week, this capability called Okta for the Global 2000 and this is a really, really important architectural advantage we have, particularly versus Microsoft. And this resonates very well with large companies, which is Microsoft built its identity technology as a part, as an integral bundled part of e-mail in collaboration.

And so the result of that is if you want to have the flexibility that you can do with Okta, where you can have Okta for a business unit or a company you want to buy or a company you want to divest or you want to have parts of Okta that govern rules for the whole organization and parts of it that govern rules just for a subdivision or a distributed part of the IT department, you can do that with Okta. We have flexibility in our architecture, and we have capabilities. We have at-scale customers like NTT and others doing this.

And Okta for Global 2000, really, we've added some capabilities to make it easier to manage and do some better visibility across the different domains, and it's really powerful. With Microsoft, if you do that, you have to essentially have different e-mail systems because of the way they bundle their e-mail to their identity.

So if you want to have a distributed rules about who can do what, you basically have to have 2 e-mail domains, which -- and you have to have 2 teams domains, which doesn't make any sense. You would never want to have -- for a company you buy, you never want to have a different teams address for those users. And that's just the trade-off they made when they decided to bundle their identity with their apps, and I understand why they did it.

Their strategy is, hey, use the whole bundle, use Microsoft apps, use Microsoft tech, use Microsoft Security. We're all going to do it all for you. And that certainly does appeal to some companies, but it's mostly the companies that are super cost conscious, don't see the strategic value of identity, maybe are more reacting in their posture in their markets and their strategy versus being aggressive and building new things and trying to expand and grow. And we're able to provide that flexibility to give that real that business agility with our architecture.

So that really resonates with particularly with big companies and the flexibility and seeing identity as a thing that matters, independence matters. And that's what -- for longer term, we're all in the -- we're all in this for the long term at Okta. We want to build this important company that's going to provide value and really be an iconic company in the future.

So to believe that's true. You have to believe a couple of things. One is you have to believe that identity is going to matter. And for the reasons we've talked about, it truly does. And the second thing is you have to believe that the independent neutral company is going to win. And if you look at everything we do, whether it's broad platform capabilities, different identity markets, whether it's focusing on the ecosystem integration and the flexibility, that's why what we're doing is resonating. And that's why we think it's pretty different from some of the big cloud platforms and some of the other legacy players out there as well.

Dave Gennarelli Okta, Inc. - VP of IR

Next up, we have Scotiabank.

William Joseph Vandrick Scotiabank Global Banking and Markets, Research Division - Associate

You've got Bill Vandrick on for Patrick Colville. So just looking at the cRPO guide, it calls for 13% growth next quarter. How should we think about how that will translate to fiscal '25 revenue growth?

Brett Tighe Okta, Inc. - CFO

Yes, it's a good question. Thank you. I would actually correlate a couple of things. Well, first and foremost, like before I get into the correlation, the way you should look at a reminder at Q3 earnings, we're going to stick with our historical precedent, and we're going to give you an early look on FY '25 revenue. It will be a prudent look, gets us 5 quarters out. So just a reminder, we'll do that.

But in the meantime, if you want to bridge that gap between now and then I would look at a couple of things, yes, I would look at the dollars of current RPO, right? And they will roll off into subscription revenue over the next 12 months. You can look at historical correlation and figure that out. And then I would pair that with the trend of revenue in FY '24, 23% growth that we just produced in Q2, \$560 million and 16% growth in Q3 and then Q4, you can imply that based on our fiscal year guide, that's about 14% year-over-year growth.

So I would combine that trend with the current RPO historical correlations to get you in the rough area for FY '25 but we will come out with our first look, like I said, in the Q3 earnings in about 90 days' time on FY '25.

Dave Gennarelli Okta, Inc. - VP of IR

Go to Ray at Guggenheim.

Raymond Michael McDonough Guggenheim Securities, LLC, Research Division - Research Analyst

Todd, you mentioned a couple of times that you continue to be surprised by the types of accounts that we're deploying the Governance solution. And last quarter, we talked about OIG potentially accelerating PAM adoption. So as you think about the general availability of PAM later on in 4Q, do you see the same potential with that product and potentially displacing existing solutions or penetrating larger accounts? Or do you still expect the PAM solution to kind of attack this greenfield opportunity more downmarket?

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

Yes. I don't necessarily agree or -- it sounds like we're arguing, we're not arguing. I don't know if the greenfield is really a downmarket thing. I think there's big companies that it's greenfield as well. See different maturities on different -- especially parts of big companies. And so I think that one of the things -- one of the lessons that OIG is that I think that the segmentation of what we thought would be the applicability of solution was pretty awful. We thought it kind of would be mid-market and below. We've seen success in really large companies, organizations like Kyndryl, for the global company I mentioned with -- in terms of the leading -- the -- one of the leading customer experience and support solutions standardizing on OIG as a net new customer.

On the privileged side, I think that -- and also on the governance side, it's like -- I always get surprised when companies take out a big piece of technology that they invested in that's working. And the secret about some of these big governance deployments is they're actually not working that well. And they kind of went into it with this broad view of all the functionality they would need and how everything they want to hook it up to and what they're seeing after several years is that they're kind of really only using part of it.

And then when you compare what we have to that, it's -- sometimes we exceed what they're actually using. So then the decision to actually swap it out is kind of beating our expectations. My guess is that it could -- the same thing could happen in privileged. I would guess that it's -- just a conservative guess would be that it's going to be where we have success, it's going to be where they don't have a solution and it's -- they want to extend the benefits they've seen with Okta Access Management and Governance into those privileged resources. And I think that probably means coexistence. But I still continue to tell this over and over to many people that we've talked before.

It's like I think that we're really in almost a different market. The company that had Oracle and Sun servers in their own data center, and they put CyberArk in there, they're not going to take that out for Okta Privileged. But I do think that, that same company may have a division that's doing more cloud development, they have containers and they want to get quickly some -- the same benefits they have for their Okta deployment on top of some of those resources and get the auditing capabilities and the workflow capabilities and the access control capabilities. But I just don't see them taking out a legacy CyberArk deployment that's kind of working and protecting their Oracle database and their own data center.

Dave Gennarelli Okta, Inc. - VP of IR

Let's go to what I believe is [Caroline] at Goldman Sachs.

Unidentified Analyst

Quick one from me is just on Okta's new partner program. I think you launched that in April of this year. Just curious what the initial reception to that has been? And then also, given the differences in go-to-market and workforce and customer, kind of how does that translate to the partner strategy in each of those clouds?

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

Yes, the partner revamped the purposes behind it were -- the fundamentals were super sound. We wanted to get more focused, more focused on the most valuable partners -- and it's -- we've had that launched for a couple of quarters now. It's going well. I think we're seeing good partner contribution in the pipeline, which is a good thing. Overall, it's not specific to that program -- those program changes. But overall, partners continue to be super important for Okta.

Particularly, excited about the partnership with Google Workspace for the go-to-market. The Google Workspace sellers around the world and a public sector can sell Okta, and that's a natural -- really natural alignment there with -- we're trying to give the Google customers a bunch of choice in technology and Google is trying to give the same message kind of saying you can use workspace and the Google tools to collaborate with anyone, across company boundaries, no matter what you use for the rest of your communications and collaboration infrastructure.

So it's a very aligned go-to-market that we're excited about that one. We're excited about the cloud service provider marketplaces. That's a new channel that's really emerging and been strong for us. We've mentioned the AWS Marketplace for a couple -- a few quarters in a row. It continues to grow very quickly. Customers want to -- that they really have big investments with Amazon, they want to retire and pay down some of their AWS credits, and they can do that on Okta through the marketplace, which is great.

So partnership is really important. I think one of the biggest opportunities and something we're really focused on and trying to really mature is our motion with the Global Systems Integrators. Global Systems Integrators are, especially in large enterprise on workforce, they do a lot of business, and they're going to be really key as we start to rip and replace some of these legacy technologies, especially on the governance side.

So the relationship and the partnerships with the Global Systems Integrators is super important. We're focused on that. And very interesting on the customer identity side, it's a natural -- it's very naturally appealing to the Global Systems Integrators because they're trying to -- they want to develop solutions and do digital transformations for these companies and Customer Identity Cloud could help them do that.

They can help them build some of the other differentiating capabilities and not have to recreate some of the identity parts that we already do in Customer Identity Cloud. So it's an important part of our business. We're kind of a -- we've always -- Okta is like very good at partnering just because it's been so important to us from the beginning. We had to partner with ISVs and apps and in the channel and so forth, and we're pretty proud of our ability to partner, but we're continued to double down on it because it is an important part of the ecosystem part of our business.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. We've got -- we're up on time, but let's go into overtime here. We've got 5 more hands raised. Let's go to...

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

Dave, we have to start scheduling these longer.

Dave Gennarelli Okta, Inc. - VP of IR

Yes. Let's go to -- I think Patrick at Wolfe.

Unidentified Analyst

It's Patrick on for Josh. Congrats on the quarter. So you mentioned that OpenAI expanded the relationship. And I think that's not the first time, maybe the second or third time that you've actually called that out. Is that kind of coming from the customer side or the workforce side? I'm just curious if you can talk a little bit more on what products they're expanding with and seeing success with. And then also, was that any meaningful contribution to growth in the quarter from OpenAI specifically?

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

Patrick, I lost you for a minute there. So if the question was for me, I needed you to repeat like the first 20 seconds.

Brett Tighe Okta, Inc. - CFO

Yes. I lost you as well.

Unidentified Analyst

Okay. Can you hear me?

Brett Tighe Okta, Inc. - CFO

Yes, we can hear you.

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

Yes, you came back about half way through.

Unidentified Analyst

Sorry about that. So I was asking about OpenAI. I think this is like the second or third time that you've called out. significant expansion with them in a quarter in a relatively short time. Is that kind of coming on the customer side, the workforce side, what products are they using and seeing success with? And then was there any meaningful contribution to growth from them in the quarter with that expansion?

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

Yes. So OpenAI is super interesting. So they're -- OpenAI as a Customer Identity Cloud customer, which so when you log in, in ChatGPT, you log in through Okta. And it's interesting because a developer inside of OpenAI 3 years ago picked our Customer Identity Cloud because it had a great developer experience and from the website and started using it. And this Chat -- and at the time, it was the log-in for their APIs and then ChatGPT took off. And now, as you mentioned, we've had really pretty sizable transactions with them over the last couple of quarters. And so it's a great testament to our strategy on Customer Identity, having something that appeals to developers.

And you saw they did something pretty interesting -- and so this is really a B2C app, right, of ChatGPT but they -- now they recently launched their enterprise offering, and they want to connect ChatGPT to enterprises. So this is -- Okta is really good at this, too, because our customer identity cloud connects our customers to consumers, but also connects our customers to workforces. So then you have to start supporting things like Single Sign-On and SAML and Open ID and authorization. And so it's just open API continues to get the benefits of being able to focus on what they want to focus on, which is obviously their models in the LLMs and the capabilities, and we can focus on the identity plumbing that wires it together.

So the transaction was -- it was one of the top -- I mentioned the top 25 transactions. The total TCW of all this transaction was -- this quarter was \$100 million. It was one of those top 25 transactions, but I don't -- I haven't done the math on the TCW for how much of the \$100 million it was. But it was one of our -- it was on the larger side this quarter.

Dave Gennarelli Okta, Inc. - VP of IR

Great. Let's go to Shrenik at Baird.

Shrenik Kothari Robert W. Baird & Co. Incorporated, Research Division - Senior Associate

Thanks for prolonging the Q&A. I think it's a good idea. So Todd, Brett, great to hear the cross-sell momentum to speak about OIG and PAM, of course, the early traction as well as the device access. On the commentary, on Okta for Global 2000, I think that, Todd, you expanded upon it. It's like an architecture differentiator and then a competitive advantage. And I guess on impressing you mentioned that the solution has already become a critical component of your sort of large new upsell transaction. So just curious, like, is that becoming or potentially will become a driver. Is it still just like an add-on to the bundle at this point? So just curious in terms of its contribution in terms of the upsell and the uplift momentum? And how are you and Brett as well kind of factoring it and going forward. Really be helpful.

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

The Okta for Global 2000, it's -- you mentioned the competitive differentiation, which is true. What I explained about that is relevant. It's also -- there's also something more important about it, which is if you think about what Okta is trying to do, we are -- we're the leader in identity. We want to make sure everyone in the world knows how important identity is. And traditionally identity has been sold at a -- as part of other platforms, you kind of got it when you bought the Windows network, you got it when you bought Oracle and some junior person in IT made the decision. But it's so important now with all the things it can do for companies.

And one of the most important parts about Okta for Global 2000 is what we're saying to the world is identity can actually impact your business strategy. As a CEO, I know this. As a CEO, I think about all the time, like what things I want to do centrally, like do I want to do function centrally, do I want to have the HR team be central or do I want to decentralize it? Do you want to buy this company? Do I want to take part of a group that is centralized and decentralized it? And those are strategic decisions and CEOs and Boards care about those. And you can't make one of those decisions today unless you're also making the technology decision because when you decentralize that HR department or you buy that company, you're making a decision about how the technology is going to work, what -- how the apps are going to work, how the security is going to work on that.

And to do that effectively, you have to have an identity system that's flexible and lets you roll out things quickly across the whole company, make policies across the whole company when you really want to lock down security, free up parts of the organization, do their own things. They can use their own HR system. They can use their own rules, and they can use their own platforms to be effective. Those are identity decisions.

So I would say that is more important on the message. And when we say we have Okta for the Global 2000, we want to make sure that message gets across. You actually what you buy, you actually buy Okta's products. So you buy Okta's products. They're licensed in a way that's convenient and works for all of these capabilities working together.

But the way I would think about the business driver is Okta Identity is more relevant. People know about the relevance of it. We can differentiate it effectively and the overall workforce and customer product suite will be sold more effectively at scale to the biggest companies in the world.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Let's go to Peter Weed at Bernstein.

Peter Weed Sanford C. Bernstein & Co., LLC., Research Division - Analyst

Appreciate you going in overtime here. I'd love to go back to kind of -- you started the conversation, emphasizing the strength with some of your largest customers, obviously frustrating that maybe the SMB side hasn't been as strong and that sits some of the logo and hopefully, that comes back. But I'd love to dig in on those larger customers a little bit more and understand where the growth is coming from. Are we hearing about seat reacceleration there? Or is this mostly about the kind of excitement of the Broader Okta platform and selling through more functionality? And we may even get a bigger boost from seat reexpansion in the future.

And then kind of like when you look out at the pipeline, obviously, the sales team is kind of stacking up stuff coming into the future like how unusual is this quarter? Is this -- was this like a big bubble in the pipeline? Are you seeing similar type of setup in the next couple of quarters where we could see really good expansion on kind of similar types of execution?

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

On the seat expansion question, I think seat expansion definitely is muted with the macro. So I think the success in large enterprise is more products. And I mentioned the OIG new business land at the global customer experience company. We have -- another example I can think of and it was a big transaction in a well-known online real estate company, that was an addition of Customer Identity Cloud.

So selling the Customer Identity Cloud to what was already a workforce customer. And then there's examples in the customers and large customers of selling expansions of products, whether it's upsells to advance multifactor authentication on the workforce side. So I would say it's more use case expansion versus seat expansion.

The pipeline is interesting. The pipeline for the current quarter we're in, in the fourth quarter are very strong. And I think the thing we have to really think about is in this macro environment, how that's going to translate? We've seen in the past few quarters that the typical conversion rates and the close rates, not the competitive rates but the close rates of how much the pipeline goes into actual closed deals has changed since the economic times of a few years ago. So that's the part we have to be prudent about.

There's stabilization in the macro. We've talked about the numbers. But I think we're taking a little bit of a wait-and-see approach before we assume that those pipeline numbers are going to fall down into the closed business category at the rates that were -- maybe you saw a year or so ago?

Peter Weed Sanford C. Bernstein & Co., LLC., Research Division - Analyst

Well, that's exciting. Hopefully, signals of no churn and salespeople and these types of things means people think they can hit their quota numbers, which will turn into some results for us.

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

Yes. No, I agree with you there.

Dave Gennarelli Okta, Inc. - VP of IR

Great. Let's go to Madeline Brooks at BofA.

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

Can you guys hear me?

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

We can loud and clear, Madeline.

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

Sorry, I would start my video, but we're moving floors in our office. I don't have a camera currently, so no video. But I just would like to go back to -- and I'm not going to ask for any forward-looking guidance, but I'm just trying to think about floor as we go into next year, what would need to change for cRPO growth could be maybe high single digit. Is that win rate tough to really drastically be cut? Is that more of a factor of macro?

Brett Tighe Okta, Inc. - CFO

Yes. I mean we're definitely not going to give guidance today for next year for current RPO. So thank you for saying that, but...

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

Qualitative is fine, yes.

Brett Tighe Okta, Inc. - CFO

But ultimately, when we're thinking about next year, really, we're focused on the second half of this year. If you think about current RPO, even more important to revenue is really the second half of fiscal year '24, given our subscription model. So we're obviously excited and optimistic about the second half, but we need to execute inside this macro headwind.

I think the biggest factor in this next half or even if you stretch it out even to next year is really what does the macro do? Because we do believe that the broader go-to-market team and the total company is really executing well, both on the top line and on the bottom line. So really pleased with how everyone is performing at this point through Q2 and as we enter into the second half of the year.

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

So just a quick follow-up to that, if I may. So if I think about -- just over -- just thinking into next year, the growth though and for the fourth quarter as well, just in terms of translating to historical, maybe like seasonal norms of budget flush. What are the thoughts feel that this year maybe budget flush is going to be stabilized. And if I think to like taking down cRPO guidance 5% from this quarter to next quarter versus your comments on stability. How do we kind of marry those 2?

Brett Tighe Okta, Inc. - CFO

Yes. It's purely -- even though the macro is stabilizing, it is still a significant headwind. And so we're factoring that into Q3. And in terms of the budget flush in Q4, obviously, we'll update you guys with our Q4 guidance on the next earnings call and now, obviously, how the results go at the end of Q4. But we are expecting the macro to still be a considerable headwind to the second half. And so we are adjusting our expectations or giving you expectations accordingly.

Dave Gennarelli Okta, Inc. - VP of IR

And last but not the least, we've got Brian Essex at JPMorgan.

Brian Lee Essex JPMorgan Chase & Co, Research Division - Research Analyst

All right. Great. Maybe, Brett, on that last comment. Can you maybe just clarify because I might have missed it during the prepared remarks. But are you thinking about the macro deteriorating in the second half of the year? Is it staying the same? And then I just have a quick follow-up for Todd.

Brett Tighe Okta, Inc. - CFO

Yes, we view it as stabilizing. So in other words, what we saw in Q2, we believe it stays that way in Q3 and Q4.

Brian Lee Essex JPMorgan Chase & Co, Research Division - Research Analyst

Got it. And then maybe, Todd, just I think last quarter you noted and it was just noted a couple of questions ago that just better sales retention. Is this the fourth quarter of better sales force retention? And what are the plans for hiring productivity and any kind of executive changes on the sales force front through the rest of the year? Just trying to get a sense of what the overall kind of like cultural environment is like there from a sales perspective.

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

Yes, it's a great question. The attrition has been a healthy level for a couple of quarters now. And then obviously, if attrition is a healthy level, you get ramps. People start to ramp. And the data we see that one of the points we look to is the participation in Customer Identity Cloud deals, and that's at a healthy level as well. But the productivity can still be better and we think the productivity is really macro related.

And so I think the last thing that could improve is productivity, but we have to see what the macro does. But it's -- we are working very hard to get better. It's not like we're just waiting around waiting for the macro to get better. We're -- as we always do, we're enabling, we're making sure that people -- the processes and the handoffs and the marketing funnel is running well. And so we're doing a lot of stuff.

And it's really a testament to, I think, the leadership we have on the sales side. We have Jon Addison who is running the sales team

globally on an interim basis. We have a search out for a new President Go-to-Market, and we're going to get the right -- it's very important. We put the right person in that job because that's going to be the person that takes us over the next 3 to 5 years to new heights, and we're going to get the right person there.

So I think overall, the vibe is positive in the -- ultimately, I think the attrition is kind of a good metric for that. But even beyond that, I think just anecdotally when you talk to people and see how people are feeling and seeing success and how they're seeing success. It's a positive vibe. So that portends well for the second half of the year and beyond.

Brett Tighe Okta, Inc. - CFO

Brian, it might be an easier take than my boss. But I would have had 4 quarters in a row, but he's saying 2. So yes, I think we've definitely strong a bunch of quarters together, really healthy attrition. And I think what Todd was saying, it comes through in the results.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Thanks, everybody. Before we go, I just want to let you know that we'll be attending several conferences this quarter as well as bus tours. We'll be at the Goldman Sachs Conference in San Francisco on September 5, the Wolfe TMT Conference in San Francisco on September 6, also at the Citi Conference in New York on September 6 and the Piper Sandler Growth Conference in Nashville on September 13.

And of course, we hope to see you in San Francisco for Oktane and our Executive Panel Summit on October 4. So that's it for today's meeting. If you have any follow-up questions, you can reach us at investor@okta.com. Thanks, everybody.

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