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PRESENTATION

Operator

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

At this time, I'd like to turn the conference over to Catherine Buan, VP of Investor Relations. Please go ahead.

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

Good afternoon, and thank you for joining us on today's conference call to discuss Okta's Fiscal Second Quarter 2019 Financial Results. My name is Catherine Buan, VP of Investor Relations at Okta.

With me on today's call are Todd McKinnon, Okta's Co-Founder and Chief Executive Officer; Bill Losch, the company's Chief Financial Officer; and Frederic Kerrest, the company's Co-Founder and Chief Operating Officer.

Statements made on this call include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our financial outlook, our market positioning and benefits that may be derived from our recent acquisition.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

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



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financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison.

A reconciliation between GAAP and non-GAAP financial measures is available in our earnings release. Further information on these and other factors that could affect the company's financial results is included in the filings we make with the Securities and Exchange Commission from time to time, including the section titled Risk Factors in the Annual Report on Form 10-Q previously filed with the SEC. You can also find more detailed information on our supplemental materials, which includes trended financial statements and key metrics posted on our Investor Relations website.

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

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

Thanks, Catherine, and thanks, everyone for joining us today.

Our second fiscal quarter was another record quarter for Okta, with total revenue growing 57% and calculated billings growing 53% year-over-year. We continued to invest across our business while improving our bottom line. Operating margin improved over 300 basis points, while free cash flow margin improvement more than 500 basis points year-over-year. We also had a record quarter in terms of customer growth, especially in customers with over \$100,000 of ARR which grew 55% year-over-year.

We had a number of customer upsells and new wins in the quarter, of which I'll highlight a few. First, an existing Okta customer, 21st Century Fox, is using Okta as a key part of its Zero Trust architecture to manage access for more than 30,000 employees and thousands of partners globally. This quarter, the company added API Access Management to streamline authorization and further strengthen the company's security posture.

A new customer win in the quarter was Meraki, a leader in networking solutions and a division of Cisco. Meraki was specifically looking for a lifecycle management solution for its 1,500 employees and they chose Okta after evaluating other options. The Okta Integration Network was a strong selling point for Meraki as they needed to connect custom applications to other existing cloud applications. Meraki selected Okta SSO, Universal Directory, Multi-Factor Authentication and Lifecycle Management to stay on IT costs, improve productivity and increase overall security.

NTT DATA Services, a top 10 global IT services provider, was another new customer win in the quarter. They selected Okta to rework their identity platform as their existing solution couldn't scale quickly to keep pace with their growth, particularly in M&A scenarios and for supporting their remote workforce. NTT selected Okta for SSO, Universal Directory, Lifecycle Management and Adaptive Multi-Factor Authentication. With Okta, NTT was able to execute their identity as a new perimeter strategy and centralize their employees' identities onto one unified platform.

We also added one of the world's largest asset management companies as a new customer in both customer and employee identity management this quarter. They selected Okta for 2 key initiatives: One, to help modernize their customer-facing portals and provide better experience for their international customers; and two, to secure and expedite adoption of technologies to help make their 15,000 employees more productive. This customer purchased our SSO, Universal Directory, Adaptive Multi-Factor Authentication and Lifecycle Management products across both customer and employee identity deployments to achieve these initiatives.

We're pleased with our consistently strong results and the momentum we're seeing, which is being driven by several factors. It starts with the significant market tailwind in our favor. Every organization is moving to the cloud. Every company has to become a technology company, and everyone is worried about security. We are seeing identity become mainstream as organizations recognize the critical role that identity plays in their environments. Our experience in the market has validated our view that identity is becoming more pervasive and imperative for our customers. We believe that the tailwinds driving customer demand for identity solutions are robust and that we are just beginning to capitalize on this rapidly growing opportunity.

Here are the 4 reasons why I think we're winning and that make us unique: our technology; our customer-driven strategy; our expansion opportunities; and the network effects inherent in our business model.

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First, we believe we have the best technology platform for identity in the market. Customers love Okta because our platform is secure, scalable and reliable. We are benefiting from our brand, which is strengthening among CIOs and CISOs. Also, Okta enables a faster ROI for our customers. Many customers can deploy in days or weeks, not quarters or years. And the Okta Identity Cloud is independent and neutral. In the real world, most organizations don't choose just one cloud platform. They will be running hybrid cloud architectures for a long time to come. We are uniquely positioned to consolidate all of a customer's applications to a single identity service. Okta's platform allows our customers to choose the best technologies without sacrificing security or stability, which our customers often refer to as helping them future-proof their environments. Lastly, our technology is designed not only to have the best features and functionality but also to address our customers' business pain points. We integrate at the workflow level so that users can automatically take advantage of the functionality across their modern cloud applications such as ServiceNow, Palo Alto Networks and Box, without weeks of custom configuration. Okta removes the friction from the process of moving to the cloud.

This brings me to the second reason we're winning: our customer driven strategy. Our customer-first focus is not just a slogan. It impacts everything we do, how we design and develop our technologies, how we go to market, how we service our customers every day. So as we look at our long-term product strategy, we strive to anticipate what will solve our customers' business pain points today and over time. Let me give you some examples of specific pain points.

One customer challenge we helped solve is connecting customers and critical partners to corporate systems. For example, in making a blockbuster film, 21st Century Fox collaborates with over 200 companies from content creation to content distribution. Okta connects Fox with key business partners that are connected into its digital supply chain. The success they have had with Okta over the years has resulted in multiple upsells.

Another is modernizing IT where, customers are looking to move to the cloud or a hybrid environment but need to integrate different systems and platforms under one control point. At Oktane, the CISO of Allergan said M&A was a primary driver for their adoption of Okta. In just 4 years, they had acquired 44 companies and needed a cloud-based solution to quickly consolidate new companies and allow access across all entities. They had 5 HR systems, 4 ERP systems and over 20 ways to onboard a contract employee. Okta allowed them to streamline this by serving as a single control point that sat as an integration layer on top of all of these systems.

In many cases, we are simply reducing friction within a company's IT infrastructure by replacing legacy systems. Our NTT win this quarter is a great example of how Okta was able to create a central source of identity for the company's highly remote workforce and streamline their access to dozens of cloud applications while improving the company's overall security posture.

Solving our customers' most acute pain points today and their most strategic pain points for the future is our imperative, and they choose us because we respond to these problems quickly and effectively. Our success is aligned with our customers' success.

That leads to the third reason we're winning, which is our expansion-rich business model. We have multiple expansion opportunities with customers. With the same leading core technology platform, we service identity management for employees, contractors, partners and almost any type of customer application for an organization's many lines of business. Our ability to offer a single platform to solve identity challenges in all these different use cases gives us the opportunity to sell the Okta Identity Cloud across multiple areas within an organization.

Our customers such as Allergan, Experian and Farmers Insurance each started with Okta to solve an acute problem quickly and effectively and many have since expanded with more users and more products or by expanding into more use cases. This is what drives our dollar-based retention rate and contributes to our high growth rates. Our growth is coming from both new logo wins as well as strong upsells and we believe there are many more use cases ahead of us.

Lastly, the network effect of over 5,500 integrations allow our customers to benefit from the power of the Okta Integration Network. The Okta Integration Network is a foundational part of our platform and driver of our success. Our customers leverage the Okta Integration Network to seamlessly connect across multiple technologies such as applications, network security, workflow orchestration and API management, making it easier for them to discover, deploy, manage and administer all best-of-breed technologies securely.



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So in summary, our momentum is being fueled by both the market tailwinds and our ability to win. We are seeing identity become mainstream and the market coming to us. Our technology platform is highly differentiated and built to help solve our customers' pain points. We are maniacally focused on customer success. And lastly, our expansion opportunities and the powerful network effects that we create give us a critical advantage.

Before I pass it over to Bill, I wanted to briefly comment on our acquisition of ScaleFT. We were excited to announce the acquisition in the quarter, which will help our capabilities in Zero Trust security. We believe that continuous authentication and server access are the next essential features in a secure IT environment and that we will be better equipped to deliver these capabilities with the technology from ScaleFT.

We remain focused on the same 3 strategic areas for long-term growth: security; the Okta Integration Network; and customer identity. We're continuing to make great strides in these areas and look forward to diving deeper into our vision and growth opportunities at our Investor Day in a few weeks.

Thanks again for calling in today, and I'll now turn it over to Bill to walk through the financials.

William E. Losch - Okta, Inc. - CFO

Thanks, Todd, and thanks again to everyone for joining us.

I'll first go through our results for the second quarter of fiscal year 2019 before getting into our outlook.

We had another strong quarter with revenue totaling \$94.6 million, growing 57% year-over-year. Subscription revenue totaled \$87.9 million in the second quarter, an increase of 59% year-over-year and comprised 93% of our total revenue, up slightly from 92% in Q2 last year. Professional services revenue was \$6.7 million, an increase of 36% over the same period last year.

Geographically, the U.S. represented approximately 84% of our second quarter revenue compared to 85% in Q2 last year. Approximately 16% of our second quarter revenue came from outside of the U.S., which represents growth of 63% over the same period last year. We continue to view our international business as another long-term growth driver.

Moving on to Billings. Calculated Billings for the second quarter totaled \$109.4 million, an increase of 53% over Q2 last year. We are very pleased with our Calculated Billings growth and the underlying demand that continues to drive our business.

Contributing to our high billings growth rate was better-than-expected bookings linearity in the quarter, the beneficial timing of certain invoices and a few customers with multiyear upfront billings.

Current calculated billings growth for the quarter was 50% year-over-year.

Our strong billings growth has also benefited from momentum within our customer base and from new customer additions. The total number of customers at the end of the quarter came in at over 5,150, and we saw our customers with ARR greater than \$100,000 grow to 837, up 55% year-over-year, which was an acceleration from Q1. We saw broad additions across our customer base and had record net new total customers and customers with ARR greater than \$100,000 up 450 and 90, respectively, from the previous quarter.

Our dollar-based retention rate for the trailing 12 months ended July 31 was consistent with the last quarter at 121%, demonstrating the ongoing success we are having expanding within our existing customer base.

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



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Subscription gross margin continues to be strong at 80.3%, up 130 basis points versus the second quarter last year. Our Professional Services gross margin was negative 17.9% compared to negative 26.5% in the second quarter last year, primarily due to improving operational leverage.

Total gross margin was 73.3% in the second quarter, up 300 basis points year-over-year. Gross profit was \$69.3 million, up 64% year-over-year.

Turning now to operating expenses. Sales and marketing expense for Q2 was \$53.5 million compared to \$34.9 million in Q2 last year. This represents 57% of total revenue, an improvement from 58% in the second quarter last year despite the impact from Oktane, our annual customer event, which moved from Q3 last year to Q2 this year. As a reminder, Oktane will be in the first week of April next year, which is our first fiscal quarter.

We continue to expect sales and marketing expense as a percentage of revenue to improve for the full year.

R&D expense in Q2 was \$19.6 million compared to \$12.5 million in Q2 last year. This represents a growth rate of 57% as we continued to invest heavily in the Okta Identity Platform and our Okta Integration Network. At the same time, R&D as a percentage revenue came in at 21%, consistent with Q2 last year.

G&A expense was \$15.5 million for the second quarter compared to \$9.2 million in the second quarter last year. G&A was 16% of revenue, slightly higher than 15% for Q2 last year.

Our total headcount was 1,392 as of July 31, growing 27% over Q2 of last year. We continued to add headcount across the board as we split the growth of our business.

We remain focused on responsible growth, and as a result, we've seen continued improvement in our operating margin. Operating loss in the quarter was \$19.2 million, which is a margin of negative 20.3% compared to negative 23.6% in the same period last year, an improvement of 330 basis points. As expected, we saw a sequential dip in our operating margin in the quarter, largely due to the cost associated with Oktane.

Through the remainder of this year, we are planning to further ramp our hiring as we continue to invest in our go-to-market initiatives and innovation. However, we also expect that operating margin will continue to improve on a fiscal year basis.

Net loss per share in Q2 was negative \$0.15 with 106.7 million basic shares outstanding. This compares to a net loss per share in Q2 last year of negative \$0.15 with 93.6 million basic shares outstanding at the time.

Operating cash flow was negative \$5.3 million in Q2. Operating cash flow margin was negative 5.6% compared to a negative 10.4% in Q2 of last year, an improvement of 480 basis points.

Free cash flow came in at a negative \$11.3 million in the quarter. Free cash flow margin was negative 12%, an improvement of 540 basis points compared to a negative 17.4% for Q2 last year.

As expected, we also saw the impact of additional CapEx associated with our headquarter office expansion this quarter. We continued to expect to see variability in free cash flow margin due to this expansion along with ongoing fluctuations in working capital.

Turning to the balance sheet. We ended the second quarter with \$536 million in cash, cash equivalents and short-term investments. This includes the net proceeds of \$307 million from the convertible senior notes we issued in Q1.

As Todd mentioned, we completed the acquisition of ScaleFT in the second quarter. This had an immaterial impact on revenue and EPS for the second quarter and we expect the same for the full fiscal year '19.

Moving on to guidance. For the third quarter fiscal 2019, we expect revenue in the range of \$96 million to \$97 million, representing a growth rate of 43% to 45% year-over-year; non-GAAP operating loss in the range of \$15 million to \$14 million; non-GAAP net loss per share in the range of \$0.12 to \$0.11, assuming 109 million weighted shares outstanding.



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For the full year fiscal 2019, we now expect revenue in the range of \$372 million to \$375 million, representing a growth rate of 45% to 46% year-over-year; non-GAAP operating loss in the range of \$59 million to \$57 million; non-GAAP net loss per share in the range of \$0.48 to \$0.46, assuming 107 million weighted shares outstanding.

In summary, I'm very pleased with our strong performance this quarter, and we look forward to building on this momentum in the second half of the year. We are well positioned to continue to capitalizing on market tailwinds, and I'm encouraged by the consistently strong execution we have demonstrated.

Going forward, we see opportunity for continued growth as well as additional leverage in the model. We look forward to seeing you at our upcoming Investor Day on October 9 in San Francisco.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Rob Owens with KeyBanc Capital Markets.

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

If I look at customer account and growth there or customer account over \$100,000 ACV, it seems like it's inflecting here. And I'm curious, are you seeing this as a function of better sales force productivity, the market just opening up a little bit at this point? I mean, given where you are in the lifecycle, it's surprising to see a modest inflection in growth to the positive here. Or are you seeing more partner-led types of opportunities that are helping?

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

Rob, I think it's a couple of things. I think the biggest opportunity for us has been -- over the last 5 years, has been -- we've talked about these big tailwinds that are behind us, move to the cloud, the prevalent on everyone's mind about security, every company trying to become more of a digital business. So those are big macro tailwinds. And I think the biggest opportunity for us has been getting that message out there that identity is really important to facilitate all of those transitions and to make those -- to take advantage of all those transitions. And I think what's happening is that, that message is getting out there. So everyone knows they got to go to the cloud, everyone knows they have to be secure and transform their businesses to digital, but they're starting to realize more and more that identity is a key to that and that obviously is very, very good for us. And I think that's really what's driving that.

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

And then I guess relative to the October quarter guidance. I'm curious what would cause the sequential flatness that you're guarding for at this point given, a, you've never seen it historically and given, b, just the customer velocity that you're seeing overall, why wouldn't you see more of a sequential uptick for October as compared to July.

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

Yes, Rob, so we've obviously been very pleased with the growth we've had. It's been very strong. And as Todd said, it's really because the market is just a big opportunity for us. The forecast guide that we gave is growth of 43% to 45% year-over-year. So we feel like that's a very strong guide.



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But that said, as you know, most of our business going forward is coming from large enterprise customers. And as you know, those deals can have longer sales cycles, sometimes be a bit choppier, so we're being prudent with our forecasting. But that said, we feel there's a lot of opportunity and feel very positive about the business going forward.

Operator

Our next question will come from Terry Tillman with SunTrust Robinson Humphrey.

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

I guess the first question is just related to pricing and packaging. You can see where you guys have added additional SKUs for some of your products like SSO. You've got an adaptive version or higher price point version. And a couple of the other products, I think including MFA. It looks like you've got additional SKUs now that are higher price points SKUs and also just other products that now there's a clear and kind of transparent pricing model for it. So I'm just kind of curious, what kind of changes or impact you're seeing from some of these additional price points? And then I have a follow-up question.

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

The -- so I think that -- as you mentioned, I think that it's important to understand that the platform is adopted by modules or by products and it's also adopted by users. So you can start with customers as customer identity as your users or you can start with employees. You can add the other type of user. You can start with one product for customers and add multiple products for customers or start with one product for employees and add more products there. We've -- over the -- we have pretty consistent history of innovation in terms of building new capabilities into the platform and then providing those to customers as separately priced products or modules. And what that does is it gives the customers a lot of flexibility on the various use cases they want to start with show success and then build from that success. I talked earlier in my comments about customer driven -- customer success-driven culture. That -- hand-in-hand with that, you have to have this flexible platform that lets customers incrementally adopt and get value as they adopt it. So what's happening more and more is really full-fledged multi-product, multi-use case adoption which is driving some of our numbers. So hopefully that gives a better perspective on what's going on there.

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

Yes, it does. I appreciate that. And I guess my follow-up question just relates to -- at Oktane, I was really intrigued around ThreatInsight and talking to customers and prospects. There seems to be a lot of interest in that. ThreatInsight, maybe you could talk about where you are versus a couple of months removed from Oktane and really just the story around analytics. Because of all this usage, it seems like you are going to have a lot of power to really bring this analytics and ThreatInsight to bear. So how are you going to monetize it and what kind of impact it's having on the business in general?

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

Yes, I think it's one of the -- what we can -- the value that we can deliver to customers based on the data that the service generates is, I think, missed -- is underappreciated about the potential value we can deliver there. So we're really excited about that. We talked about ThreatInsight, which is a new capability, we talked about it at Oktane and we're really excited about how that's going. It's in early beta release. We're proving it out with a couple of customers. And basically what it does is it gives customers broad-based insight into all the threats that are emerging across the entire platform and helps them take proactive security measures in the face of those threats for their own organization. So it's really taking this data and then making the service more valuable because of this broad swath of data we have for each individual customer. So we're working hard on ThreatInsights and, of course, we're thinking about what are the logical ways to expand that and make it broader and make it more impactful just in terms of like innovation -- and specifically innovation with -- that takes that data underlying the service and exposes that to customers in a way that's helpful for them.



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Operator

Next, we'll take a question from Alex Henderson with Needham & Company.

Daniel J. Park

This is Dan Park on for Alex. So I guess -- I know you noted there was some strong progress with upsell in the quarter. I was just wondering if you could provide some additional color on sort of what solutions were driving the upside.

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

Dan, thanks for the question. This is Frederic. I think as you noted, we're continuing to see not only strong growth in net new customer additions by adding 450 for the quarter, but also we continued with a very strong dollar-based net retention rate of 121%. I think what you're seeing is that as organizations start to find that the Okta service and platform can be deployed quickly to solve specific use cases, they get comfortable of what we're doing and they start to see a lot of other opportunities where they can expand their usage. So again, whether they start with a workforce opportunity and then move to customer identity management, or whether they start with a specific issue that they're looking to solve and then they expand to other products, there's a lot of continued vectors of expansion in the service, and we're fortunate that our customers are finding a lot of value with what we're doing for them.

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

Yes. And I will just add, the customer identity part of the product suite is -- it's newer. So we introduced that second to the employee identity, and as a result, it's -- it was earlier in the lifecycle in terms of maturity. And that's really matured over the last several quarters. So what you see is more and more companies starting with customer identity and then adding the employee identity later. So if you look at -- we talked about the large asset management new win in the customer, that started as a customer identity deal, right? So that's happening more and more. And then also with that maturity, the add-on sales that -- maybe companies that started with employee identity, but the add-on sale for customer identity is bigger because that product line is more mature now. So those are a couple of trends I would highlight.

Operator

Our next question will come from Sterling Auty with JPMorgan.

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

Just want to maybe expand upon the answer that you just gave. So Todd, in your prepared remarks, you talked about your keys to success. Expansion was one of those keys. And what I'm wondering is how much of that expansion that you're seeing is what you just kind of answered, which is the additional use cases and additional users versus expansion through selling additional products into those existing customers?

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

I would -- I don't know the exact breakout of that. I do think -- I know that -- to the extent of major shifts, the newer products like Multi-Factor Authentication, Adaptive Multi-Factor, Advanced SSO, those are early in their life cycles and they're growing faster. Every quarter they make more contribution. And then the dynamic I just mentioned in terms of customer identity is definitely true. The product is maturing. The build versus buy decision in the marketplace is becoming more well known to be something you could buy. So you're seeing more deals start with that and then bigger expansions because of that. So that's an important dynamic there.



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

And what I would add on that, Sterling, is don't get me wrong, we're very excited about those dynamics and the expansion within customers. Again, it's very early for the business. These are very, very big markets, and there's a lot of opportunities with both net new customers as well as, as we get into more and more of the large enterprise, they have more and more opportunities where they can leverage the service. If you think about large organizations like Allergan, where they have many, many different kinds of patient and doctor and clinician forward-facing websites, there's a lot of different ways that we can help them in what they're trying to do.

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

That makes sense. And then just as a follow up, I believe at Oktane, you mentioned there -- had a number of partnership announcements. I think VMware was one of the elements that you were talking about. I'm just kind of curious, I know it's still early days, but what kind of conversations are you getting from customers around that endeavor?

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

Yes, the -- we are very excited about the partnership with VMware. We had a good presence with them at their VMWorld a couple of weeks ago, and we thought that the opportunity to expand with both net new customers and joint customers, all these customers are thinking about a best-of-breed world where it's a very heterogeneous environment. They're trying to manage a lot of infrastructure and devices, some of which are company-owned, some of which are brought by employees. They're trying to leverage the best technology out there. And what you see is a very strong demand for a joint product like what we have with VMware. So it's early days for the partnership, as you mentioned, since Oktane was only a couple of months ago, but I'm very excited about that. And I think there's huge opportunity ahead.

Operator

(Operator Instructions) Next, we will go to Heather Bellini with Goldman Sachs.

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

I just was wondering, Todd, maybe this is for you. Just how do you think the contribution of the dollar-based net expansion has changed over the years? And I guess what I'm trying to think about is, is there a way to kind of characterize how much of that is coming from new seats, how that might have changed over the last few years versus the addition of the new products that you've been successful with? And then I have a follow-up.

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

Yes. I don't -- Heather, I don't know the exact number. And even if I did know it, we haven't broken it out, so I probably couldn't say it. But I do know that -- what I talked about -- what I mentioned for the previous couple of answers is we're seeing progress in the newer products like Multi-Factor Authentication, Advanced SSO and so forth. Smaller bases, because they're newer, but we've seen -- we are happy with the progress there. And this dynamic on customer identity is real. Although I don't have the exact numbers, I do know that as the product has matured, we're leading more deals with it than we were when it was not as mature. And it also continues to be a bigger contribution to overall expansion, and that's important because that's a big area for us. If you look over the last couple of years, we did an acquisition that helped bolster this, the Stormpath acquisition. We have -- we're working on this a lot. We think it's a very important trend, and we're happy to see progress there. Although by no means are we done there. That market has, I think, a long, long way to run. And so we're just in the early stages of that.



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

And I guess just to follow-up on what you just said, are those -- when you're adding things like MFA, for example, are people taking on bigger seat deployments right away than maybe the initial sale would have been on Identity Management maybe the last time they signed on? Is there any way to think how fast people are kind of taking a bite out of -- how big the bite of the apple is when they start adding these new products versus kind of their initial sale?

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

Yes, yes. And so I think that it's -- a typical pattern is start with SSO for every employee and then add Customer Identity, which, depending on the company, could be bigger to much bigger than the employee deal. It's not true for every company because some companies have small numbers of customers relative to large employee bases. But generally speaking, the customer identity investment for certain companies could be bigger. And then you could add something like a Multi-Factor to the employee population. That's usually done for the entire employee population and has an extra module just like the original SSO deal with the entire population. So we get it both from that.

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

Okay, great. And then just my follow-up for Bill was going to be of the net increase, the 90 customer net increase in customers with ACV over \$100,000, how many of those came from new logos?

William E. Losch - Okta, Inc. - CFO

A majority of those came from new logos, Heather, but there was -- so that's very positive. So we're still seeing a lot of incremental billings, and the majority of our incremental billings are coming from new logos. But the point we've been making earlier about the expansion opportunities we have since we have a customer in place with the 121% net retention rate demonstrating that, we see a lot of value, obviously, once the customer's there, but are still getting a lot of upside so to speak from new customers, and new customers paying us a lot of money.

Operator

Our next question will come from Gray Powell from Deutsche Bank.

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

Just a couple of questions. I want to follow-up on customer identity. I know you guys -- I know you just hit on this, but can you help us think through the size of customer identity? Like if a customer's spending \$100,000 per year on the employee-facing products and then they purchased Okta for the external use case, what's the typical spend? And then did you say anything on just the mix of new business that came in from the external use case?

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

Hey, Gray, this is Frederic. I'm happy to touch on that. So when we think about customer identity, it's a pretty new market. Traditionally, it's been a build market. So it's one where organizations would just set up the infrastructure themselves. They are now more and more realizing with things like scale, with things like security, the importance of performance for these large customer-facing systems that it becomes a buy decision. And that's where we're getting involved. That's why we're -- when we talk about it being an early market but growing fast, that's the dynamic we're referring to. I think what's interesting to think about is the market for custom developed applications by companies in the world achieves tens and tens of billions of dollars. And all of these applications need to use identity. So if you think about organizations who want to take Twilio off the shelf to use them for SMS communication and they want to take Stripe off the shelf to use it for payments, we want to make it very easy for them



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to take identity off the shelf with Okta and put it right into their application. And you're seeing that with every organization's got to do more when it comes to B2B, when it comes to business-to-consumer, when it comes to, as we talked about patients and customers, and all sorts of different use cases. And every organization has to look at this. It's hard to figure out exactly how that works and how customers think about it, but you can see that across the organizations, there's a lot of opportunities for those. As Todd said, even small organizations could have large customer bases. And so even with small companies, you'll see deals into the 6 and 7 figures when it comes to the external customer identity management. In terms of thinking about how that market is going to evolve, look, it's early but it's a big and it's growing, and we think it's going to be a very interesting market in the years ahead.

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

Got it. Just one more quick one. So it sounds like Adaptive MFA's seeing pretty strong demand. How do you think the acquisition of Duo by Cisco impacts the competitive environment there, if at all?

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

I think it's an interesting transaction for a couple of perspectives. First of all, I think that a lot of people don't realize this, but Duo is actually a really good partner of ours. We have a lot of joint customers. And our integration between Duo, Multi-Factor Authentication and Okta Identity Cloud is really robust and delivers value to customers. And I think that partnering with Cisco more broadly and Duo as part of Cisco is going to be great, and we're very optimistic about that. We do compete. We have our own Multi-Factor product which competes with Duo. And I think that for many, many customers as well, our complete solution in terms of MFA and Identity is what they want, so we sell it to them. And we're confident that where we compete, we'll continue to do very well even if it's part of a different parent umbrella organization. I do -- one thing, when I look at it from a macro perspective, when we started at Okta, it was -- people thought cloud security and doing identity in the cloud was kind of a very, very forward-leaning thing to do. And I think it's interesting that you look at one of the old guard of technology in Cisco and someone that's really known for on-premise and networks and so forth is really leaning in, in terms of getting on board with cloud identity and cloud security. I think it's pretty exciting for where we are and kind of the leadership we've shown to the market and where we could go from here.

Operator

Our next question will come from Shaul Eyal with Oppenheimer.

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

I know Frederic, Todd or Bill...

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

(inaudible)

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

Absolutely, absolutely. Europe, also. Great acceleration. What's driving that? Is it just the overall demand? Is it country specific, the demand relation? Is it GDPR? Is it all of the above?



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William E. Losch - Okta, Inc. - CFO

Yes, this is Bill. I think it's primarily being driven by the market and the demand in the market. We're seeing, as you saw, growth of 63% year-over-year. So it's even growing faster than what is a very, very, very healthy growth in the U.S. So a lot of it is being driven, and most of it I think is, by the demand in the market. And obviously, we're investing now to realize that demand and capitalize on that.

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

Understood, understood. And if you're going back and building a little bit on the prior question on Duo and Cisco. And Todd, you addressed your SalePoint partnership with Duo, what can you tell us about some of the other partnerships with some of the other identity-related players there, whether it's a cyber operations, how is that coming along?

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

Yes, I'm happy to talk about this. So we have -- as you mentioned, there are other very strong partners of ours out there that we do a lot with in identity. And if you think about the Okta innovation network as a core piece of the platform that we built, it's what allows our customers to derive a lot of value out of, not only Okta, but the end-to-end use cases that we help them solve. We have very good partnerships, as you mentioned, with providers like SalePoint, like CyberArk and many others. In fact, I don't know if anyone noticed yesterday, Proofpoint put out a press release about a very tight integration that we have now with them to both prevent phishing attacks for employees but also help remediate those kinds of attacks very quickly. That's just a great example of more and more technology partners finding great ways to integrate with our platform and our products to provide better solutions for both joint as well as prospective customers.

Operator

Our next question will come from Jonathan Ho with William Blair.

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

Just wanted to start out with ScaleFT. I just wanted to better understand sort of the opportunities that you see here and maybe your thinking around timing for more adoption of, I guess, the Zero Trust approach?

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

Yes. I'm happy to talk about that, Jonathan. We're really excited about ScaleFT, relatively small, primarily R&D company we bought. And they have a product that -- their product is something called server access management, which essentially helps you give secure, auditable access from server admin in the cloud environment. And we're excited about this for a couple of reasons. One is that we think providing secure access for server admins is potentially a fruitful area for us. But also to do that from a technological perspective, you have to be very good at knowing exactly what's happening on the device and doing continuous authentication of all the requests so that you can tightly control in a very flexible way what -- who has access to what sort of resources. And we're excited about taking those pieces of the technology and then broadening those out using the technology and applying them to the broader Identity Cloud so that we can control -- we could provide that kind of super flexible, very controlled access to any cloud resource from anyone to really democratizing that kind of access. And that's this concept of Zero Trust, where you don't trust -- the concept of trying to trust a network perimeter is outdated. Things are coming from so many different places and so many different networks and you're going through so many different resources, many of which are even your data center. You can't trust the network perimeter. You had to have -- you basically have to trust identity. And you have to trust your identity system knows the person, the device and the resource and makes the right security access decisions in a flexible way. And that's really democratizing this concept, and that's what we're excited about doing with some of the underpinning technology of ScaleFT.



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

Got it. And then relative to the incremental investments that you talked about making the second half, where do you see the most opportunity? Is this increasing the number of people in the sales force? Is this investing in product? I just want to get a sense for where those dollars are going.

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

Yes, happy to talk about that, Jonathan. Look, we're investing across the business. There's a lot of opportunity, obviously, in R&D and in engineering. And we're going to continue to be aggressive in these markets. There is -- they're big markets and we're early. So we're going to continue to make sure that we have the best technology out there and that our technology helps our customers be successful. We're going to continue with our customer-driven strategy. So you're going to see us to continue to invest in customer success and in all of those groups. Of course, there's a big opportunity ahead of us, both in the workforce and customer identity parts of the business. So you're going to see us continue to build out that sales force. In particular, international, which we touched on briefly both in the prepared remarks as well as in the Q&A, it's a big opportunity for us. We're really excited about the momentum, and we think that we can do a lot. And it's a best-of-breed world, and it's something we're excited to move forward with. So basically across the entire business.

Operator

And that does conclude our question-and-answer session today. And at this time, I'd like to turn the call back over to Todd McKinnon for closing remarks.

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

So thanks, everyone, for joining us.

We're really excited about the business and the future ahead of us. We're also -- we're having an Investor Day on October 9 in San Francisco. Hopefully, you can all make it. We're going to talk a lot about the future and some of the product stuff we've been working on and the go-to-market organization, our investments there. And a lot of these questions we talked about here in the call, we'll go into more detail and give you more color on our thinking around some of these important long-term issues that are going to lead to our durable growth over the many years ahead.

So thanks again, and appreciate your time. And look forward to seeing you on October 9.

Operator

That concludes our conference for today. Thank you for your participation.



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