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PRESENTATION

Operator

Ladies and gentlemen, thank you for joining today to discuss Okta's Third Quarter Fiscal 2018 Earnings Call. Today's conference is being recorded.

I'd like to turn the conference over to Catherine Buan, Vice President of Investor Relations. Ms. Buan, please go ahead.

Catherine Buan

Good afternoon, and thank you for joining us on today's conference call to discuss Okta's fiscal third quarter 2018 financial results. With me today on today's call are Todd McKinnon, Okta's Cofounder and Chief Executive Officer; Bill Losch, the company's Chief Financial Officer; and Frederic Kerrest, the company's Cofounder and Chief Operating Officer.

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

In addition, during today's call, we 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 these of these non-GAAP financial measures versus their closest GAAP equivalents.

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

A reconciliation between GAAP and non-GAAP financial measures is available in our earnings release.

Further information on these and other factors that could affect the company's financial results is included in filings we make with the Securities and Exchange Commission, the SEC, from time to time, including the section entitled Risk Factors in the quarterly report on Form 10-Q previously filed with the SEC.

You can also find more detailed information in our supplemental financial materials, which include trended financial 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*

Thank you, Catherine, and thank you, everyone, for joining us today.

I'm pleased to report that during the third quarter, our total revenue grew 61% while subscription revenue grew 64%. At the same time, we continue to show significant bottom line improvement to operations with free cash flow margin improving 12 points in Q3 versus the same period last year.

Our strong top line growth was driven by 3 factors: new customer wins in the quarter, increases in deal sizes and momentum with existing customer expansions.

The total number of customers over $100,000 of ARR grew 50% year-over-year. This brings our total to 603 customers who spend more than $100,000 per year with Okta. This is an increase of 64 compared to the prior period and a record for the company.

Here are some examples of key customer wins in the quarter. First, a new customer win. We signed a multinational beverage company. This company wanted to modernize their enterprise IT and centralize access control for on-premise and cloud. They selected the Okta Identity Cloud as their identity access management solution for over 35,000 employees and 3,000 distributors. Okta will be replacing their existing Microsoft solution, and the company will now migrate many of its best-of-breed cloud applications as well as on-premise systems to Okta. This is a great example of how customers need to use best-of-breed technologies and can't be locked into a proprietary stack.

Second, customer identity management continues to be a driver of growth. To solve its customer identity challenges and improve user experience of their customer portal, a Fortune 500 insurance company expanded its Okta deployment to include 3 additional products: core API products, API Access Management and Adaptive Multi-Factor Authentication. This customer initially deployed Okta in 2016 for employees and has expanded with Okta for customer identity management.

Third, another new customer win in Q3, a major international airport based in the U.S. selected Okta to protect against data breaches. They needed an identity solution with Single Sign-On, Lifecycle Management and Multi-Factor Authentication to reduce highly manual processes that result in exposure to security threats. Okta will be the strategic provider of identity and access across all mission critical airport systems.

Fourth, one of our largest deals in the quarter was an upsell. It shows the strategic leverage of our deep integration with application partners on the Okta Integration Network. This national nonprofit health system first adopted Okta to consolidate access across multiple identity domains and support its migration to the cloud.

Now it has selected Okta to streamline its onboarding process by integrating Okta Lifecycle Management with Workday to automate provisioning of cloud applications and decrease the manual processes and time required to onboard new employees.

These customer examples further demonstrate our increasing penetration in the enterprise market and our dedication to customer satisfaction as we provide solutions across multiple applications and hybrid environments.

There are also evidence of the upsell potential we have. Many of our customers may start with 2 to 3 products. Then, as was the case with the health care customer this quarter, based on their positive customer experience, expand their relationships with Okta adding more products.

We are also continuing to replace legacy solutions and work with hybrid environment to support customers' move to the cloud at any pace. Our continued success in customer momentum was recently validated by Forrester, who named Okta the leader in its Forrester Wave report for Identity as a Service in November. Gartner also named Okta as a leader in its Magic Quadrant for access management earlier this year.

If you look at these reports and how they've evolved over the last several years, you'll notice that identity is a rapidly evolving market, with a broad range of vendors approaching us from different vantage points.

On the one hand, you have a number of point solution providers who focus on a slice of the overall identity stack. For example, identity governance administration or Single Sign-On.

And on the other hand, you'll see larger providers like Microsoft who offer their identity solutions as part of a broader proprietary stack.

Notably, Okta is the only vendor to be included and named the leader in every major analyst report. And that's not only because of our market position, it's because our strategy is fundamentally different.

We built the Okta Identity Cloud to be the world's first independent and neutral cloud-based identity platform. We offer a complete and integrated identity stack that is built on a single code base. It's not a point solution that needs to be integrated to other identity products, it's not a combination of products acquired over the years and it's not tethered to the success of a proprietary software stack.

We believe our independence and neutrality are critical because customers need to use the best technologies with the assurance that we will securely connect every one of their users to the technology they want to use. This has been our mission from the start. We want to enable any organization to use any technology today and in the future.

So with this in mind, I would like to now turn to some of our key areas of focus for the next fiscal year. First, we will continue to broaden and deepen the Okta Integration Network, which is our most significant competitive moat. Second, we will capitalize on the enormous and largely untapped opportunity in the customer identity market, one that we are well positioned to win. And finally, we will leverage the paradigm shift in security to identity.

No matter what they're doing, every customer that buys Okta does so in part to be more secure. I'd like to spend a couple of minutes on each of these points, first, about the Okta Integration Network. Customers need to use the best set of technologies to run their business. The proprietary stack model from the '90s is dead. Today, customers use hundreds of applications and a broad range of infrastructure technologies from many different vendors. And in this new reality, integration is essential. Ease-of-use, centralized management and security all depend on how well you connect this diverse set of systems to best empower the people who use them.

Given this technology sprawl in today's pace of innovation, organizations can't do it on their own. They need an integration layer that connects everything for them. And if you talk to our customers, they will tell you Okta is that layer.

The Okta Integration Network boasts the broadest and deepest catalog of integrations in the industry. We are well known for how seamlessly we allow our customers to connect to disparate applications. Over 5,000 commercial applications, and many more times private and custom applications, are pre-integrated to the Okta Integration Network, so our customers' users are able to securely access them anytime, anywhere, from any device.

It is also integrated to other tools and technologies that fit in our customers' IT environments. For example, we integrate our Adaptive Multi-Factor Authentication service to network security providers like Palo Alto Networks to enable comprehensive security in hybrid IT environments. We integrate our Single Sign-On service to application delivery controllers like F5 to enable users to connect into on-premise applications like Oracle, SAP and even mainframes and to retire legacy identity solutions like CA, Tivoli and Oracle.

Also, we've integrated our API Access Management service with API management solutions like Apigee and Mulesoft to enable organizations to have a complete and secure API strategy.

We believe there is a very important and powerful network-effective play here. When we integrate a new technology for one customer, it is immediately available for all of our customers. As a result, the Okta Integration Network is a significant differentiator and continues to be an important area of investment for us because every product we offer is built to leverage these integrations.

The second area of our strategy I'd highlight is our API products and the continued momentum we're seeing in the customer identity market. The same functionality that powers our extended enterprise products is being expanded behind the scenes by developers to power customer-facing web and mobile applications. It seems like nearly every organization, even those who aren't traditionally software companies, they're building applications to unlock new routes to market and better engage with their customers. And it's happening at a lightning pace because the barriers to innovation are lower than ever. There are billions of potential users around the world always connected, always ready to consume content, and anyone can build and roll out new application to scale.

With the API economy, people no longer need to code from scratch. Micro services and reasonable components make it easier than ever to build powerful new applications in days versus years. Every company needs to participate in this because, in order to be competitive, companies need to engage with their customers online.

And no matter what these companies are building, whether a customer loyalty website, a mobile health care app or a full-blown SaaS product line, virtually every application needs an identity layer. They need modern authentication to ensure users are who they say they are. They need authorization to ensure a user's permissions are enforced once they're in the application. They need user management so that people can register and manage their profile, and they need the ability to capture and store information about users that can be leveraged to ensure the experienced delivery is highly personalized.

Okta's API products are used to power this identity layer for any type of application that our customers are building.

Customer identity management is growing rapidly and has been a major area of investment and innovation for us this year and will continue to be in the future.

While it's a relatively new and undefined market, we believe customer identity offers a very large and relatively untapped opportunity that we are ideally suited to capture because of our enterprise-grade heritage and proven success with the hundreds of companies who use our API products today.

The third area of the Okta Identity Cloud strategy that I'd like to talk about is security. I'm often asked if Okta is a security company. And the answer is 100% yes. No matter what customers are buying from us, they're trusting Okta to help keep their businesses secure as they modernize IT with the extended enterprise or transform their customer experience. It's a valid question though. Identity wasn't traditionally thought of as a security product as much as it was seen as a way to manage users and devices, but the paradigm for security has changed. When seemingly every company is moving to the cloud and building their own customer-facing applications, the result is that those companies can also be breached in ways the traditional security perimeters can't prevent. So much of today's security paradigm is about identity. In fact, depending on what source you look at, the vast majority of security breaches are due to identity theft, specifically, the lost or stolen credentials. Threatening actors sit amongst the same people who interact with your business every day. And when these people are coming in from any network, device or location trying to access any application, people are the new perimeter. We believe security needs to be managed and enforced around the user and his or her contacts.

If you can deeply understand who someone is, what devices they're using, where they are physically located and what time of day it is and what they're trying to access, you should be able to define and enforce very granular security policies.

The last thing I would leave you with is this: we believe the market opportunity for the Okta Identity Cloud is enormous, and we are in the right place at the right time. Our strategy is to focus and invest deeply in the current markets we're in where we are in the very early stages of market penetration. We will continue to innovate in our core products, expand our integration types, enhance our developer experience, improve security and grow user adoption.

Before I hand it over to Bill, I want to reiterate how pleased we are with our performance and the momentum we are seeing in the business. Today, I'm excited to announce the plan for a new headquarters here in San Francisco to support our growth. I'll let Bill go through some of the details with you, but our new office allows us to keep our corporate headquarters in one place while it gives us ample capacity here in San Francisco for the long term.

We appreciate your support through our journey and look forward to a strong finish to what has been a great year for us. I'd now like to turn the call over to Bill to walk through our financial results. Bill?

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

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

I'll first go through our results for the third quarter before getting into our guidance and outlook. We had a strong third quarter and are once again pleased with our results. Revenue for the third quarter totaled $68.2 million, growing 61% year-over-year. Subscription revenue totaled $62.7 million in the third quarter, an increase of 64% year-over-year and comprised 92% of our total revenue, up from 90% in Q3 last year.

Professional service revenue was $5.5 million, an increase of 33% over the same period last year. As you know, professional services revenue is not a core driver of our top line momentum, and we anticipate that it will continue to be a small proportion of our total revenue over time as more of this business successfully moves to our growing services partner ecosystem.

In terms of geographic breakdown, approximately 84% of our third quarter revenue came from the U.S. and 16% came from outside the U.S. compared to 86% and 14%, respectively, in Q3 last year.

Our international business is still in the early stages of expansion and continues to grow rapidly. In the third quarter, international revenue grew more than 80% year-over-year and once again outpaced overall revenue growth.

Moving on to billings. We recorded calculated billings of $78.6 million in the quarter, an increase of 54% over Q3 last year. The strong billings growth we saw in the quarter was due to new business momentum, large deals and strong upsells.

As you heard from Todd's comments, we continue to see strength in new account wins, and our deal sizes are increasing as reflected in the number of customers with annual recurring revenue greater than $100,000 and 603, up from 539 last quarter and growing 50% year-over-year.

I would also point out that of the incremental 64 customers, approximately 2/3 were new customers. Once again, we are pleased with our significant billings growth. Driven by the seasonality of our large enterprise customers, we expect another strong performance in Q4. Looking ahead, we expect year-over-year calculated billings growth of 41% to 45% in Q4 on top of the excellent billings performance we also had in Q4 of last year. For the full year, we expect to achieve billings growth in the low to mid-50% range.

We continue to grow our customer base and ended the third quarter with over 3,950 customers, up 36% versus over 2,900 in Q3 last year.

We continue to see strong expansion within our existing customer base. This is evidenced by our consistently strong dollar-based retention rate, which was 123% for the trailing 12 months ended October 31. Strength in our dollar-based retention rate is driven by the stickiness of our products, the upsell opportunity inherent in our model as well as our continuously high customer satisfaction. Todd discussed some specific Q3 expansion examples of customers that are increasingly using Okta as a core component in modernizing their overall IT strategies while others are expanding with Okta to create a secure and seamless customer experience.

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

Subscription gross margin was 80.7%, up over 150 basis points versus the third quarter last year. Our professional services gross margin was negative 19.1% compared to negative 25% in the third quarter last year. As a reminder, we recognize professional service costs when they are incurred regardless of when the revenue is recognized. Therefore, our professional services margins will continue to fluctuate from quarter-to-quarter as we grow our business.

Total gross margin reached a record high of 72.6% in the third quarter, up over 350 basis points year-over-year. Gross profit was $49.5 million, up 70% year-over-year. We have seen our gross margin steadily increase in recent quarters as we have seen operational leverage improve.

Turning now to operating expenses. We remain focused on balancing our investments for growth while improving leverage. We showed a substantial margin improvement versus the comparable period last year improving non-GAAP operating margins by 11 points year-over-year. At the same time, we saw a sequential seasonal dip in our operating margins in the quarter, as expected, due largely to the cost associated with Oktane, our annual customer event, which was held in August. Long-term, we continue to expect that our operating margins will improve as our subscription revenue grows at a faster rate than our total operating expenses. However, we will continue to see quarterly fluctuations in the near term.

Sales and marketing expenses for Q3 was $45.7 million compared to $30.8 million in Q3 last year. This represents 67% of total revenue, an improvement compared to 73% in the third quarter last year. While we are beginning to see some operational efficiencies in sales and marketing, we are continuing to invest in our go-to-market strategies across the board in order to meet the strong market demand we are seeing.

R&D expenses in Q3 was $14 million compared to $8.9 million in Q3 last year. This equates to [21%] of revenue, which is consistent with what we saw in Q3 last year. R&D investment was up 58% year-over-year this quarter, which is a testament to our commitment to be the most reliable and innovative service in the market.

G&A expenses was $9.9 million for the quarter compared to $6.4 million in the third quarter last year. G&A was 14% of revenue versus 15% of revenue in Q3 last year. We expect that our G&A expense will continue to grow at a moderate pace on an absolute basis as we add personnel and systems to support our growth.

Our operating loss in the quarter was $20.1 million compared to a loss of $17 million last year. Operating margin was negative 29% compared to negative 40% in the same period last year.

Before I move to net loss, let me address the effective tax expense this quarter. We had a one-time tax benefit related to stock option exercises in Europe following the lockup expiration, which totaled approximately $940,000.

Net loss per share in Q3 was $0.19 with 95.5 million basic shares outstanding. This compares to a net loss per share in Q3 last year of $0.89 with 19.2 million basic shares outstanding at the time.

Free cash flow was negative $11.2 million in the quarter compared to a negative $11.8 million in the third quarter last year. Free cash flow margin was negative 16%, a 12-point improvement compared to negative 28% for Q3 last year. We expect to continue to make progress toward positive, sustainable free cash flow, but it may not be in a linear trajectory on a quarterly basis given period-to-period fluctuations in working capital.

Turning to the balance sheet. We ended the third quarter with $223.6 million in cash, cash equivalents and short-term investments.

Lastly, our total headcount was 1,141, growing 35% over Q3 last year. We continue to add headcount across the board as we support the growth of our business.

Moving on to guidance. For the fourth quarter fiscal 2018, we expect revenue in the range of $70 million to $71 million, representing a growth rate of 43% to 45% year-over-year; non-GAAP operating loss in the range of $18 million to $17 million; non-GAAP net loss per share in the range of $0.18 to $0.17, assuming 100 million weighted shares outstanding.

For the full year of fiscal 2018, we're updating our guidance as follows: revenue in the range of $252 million to $253 million, representing a growth rate of 57% to 58% year-over-year; non-GAAP operating loss in the range of $73 million to $72 million; non-GAAP net loss per share in the range of $0.87 to $0.86, assuming 82 million weighted shares outstanding.

As we look ahead to fiscal 2019, we remain confident in our positioning and market opportunity. Although we are still early in financial planning for fiscal 2019, I would like to provide a preliminary view as you look at your models for next year.

First, these figures do not include any impact of ASC 606, which we plan to adopt using the full retrospective method beginning February 1. As we gain more insight into our plan for fiscal 2019, we plan to update you when we report Q4 fiscal 2018.

We currently estimate revenue for fiscal year 2019 to be between $331 million and $336 million, representing a growth rate of 31% to 33%. Also, as Todd discussed, we announced today that we have signed a new lease agreement to move and expand our San Francisco headquarters and double our capacity. While we will incur some incremental expenses in connection with this expansion in fiscal 2019, this allows us to expand and scale our operations to accommodate future growth and will result in lower real estate cost per headcount over time.

While we did not plan to complete our move until the end of our next fiscal year, the new lease agreement will result in additional capital expenditures and operating expenses beginning Q1 of fiscal 2019. We estimate the CapEx impact, which will be in fiscal year '19, of up to $15 million, primarily resulting from the buildout of our new office space, net of the allowance from our landlord. When we issue full guidance for fiscal 2019 on our Q4 earnings call, it will include the impact of the lease on our operating expenses.

In summary, we had another successful quarter that demonstrated the increasing demand for identity solutions. We look forward to closing on our first year as a public company and hope to see many of you on the road soon.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Terry Tillman with SunTrust Robinson Humphrey.

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

One of the things that was striking to me was just the traction with large deals. If I got it correct, I think you talked about 2/3 of these $100,000-plus ARR-type customers were new customers. I hope I got that right. But what I'm curious about is are you getting a bigger average enterprise size customer that just has a lot more users? Or are they doing more use cases upfront? Or is there an expansion of just this strategic customer experience at use case?

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

It's a great question. And I think the first thing is that it's -- the problems we solve are very valuable to the companies of all -- the solution to the problem is very valuable to companies of all sizes. But when you're a very large enterprise, whether it's a large number of employees or a very large number of customers for our customer, the solution is more valuable. The value of the solution grows with the numbers involved. So it's a big part of our strategy to be very aggressive in selling our products to the largest organizations in the world.

So what you're seeing is that you're seeing kind of all of the things you're describing. You're seeing bigger initial deals with the large enterprises, you're seeing bigger expansion because the product suite is maturing so there's more products that address more use cases. And the problems that the largest enterprises in the world are having are getting -- are growing and growing every day, and we can bring a solution to those problems.

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

Great. And my follow-up question, and then I'll turn it over, is just winning the hearts and minds of developers and there's correlation there with customer identity management, the customer experience, obviously, Stormpath is an important strategic move. You got a Developer Edition. You actually announced something today that I thought was interesting, Okta for Startups. But how are we going to understand your traction was actually winning hearts, with the hearts and minds of developers? Is there other metrics you're going to be able to start to provide? Or is it going to be seen in the large deals or just more kind of use case examples that you put in press releases? Just help us understand more of the report card on how we're going to know how and what you're doing with developers.

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

I think it's a great question, and it's something we think about a lot. I think that the main metric is success with customer identity. So success with helping our customers build better solutions for their customers. And there's a lot of other things you mentioned that are interesting for us to think about as potential metrics, and we will think about those. But the end game for this is customer identity. And the more of our customers we can help build better websites, build better mobile apps, increase their customer experience, we'll be successful in that regard.

Operator

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

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

I had a question, just looking at how solid your growth in total customers has been, I think it's been around 35%, 36% each quarter this year, I was wondering if you could share with us how your -- the sales hires that you've been aggressively making over the past year kind of are matriculating. And are you -- how quickly are you seeing them actually get to full productivity? And I'm wondering if they're getting there maybe faster, and that's what able to sustain such high growth in your total customer count each quarter.

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

Heather, this is Frederic speaking. So I think that's a very astute observation. I think that we have been fortunate with the continued sales hiring that we've had. I think there's a couple of things working there. The first thing is that we've had good retention of sales folks. And as you know, as a salesperson becomes more tenured in the organization, they become more and more productive. That's the first thing. Second thing I think that what you're starting to see is also the macro trend of just more and more growth across all the different segments not only in the enterprise but the commercial business is particularly strong. We're starting to see us grow more and more internationally, as we've talked about, which continues to be a big part of the revenue. And then, frankly, at the most macro level, every organization needs to become a technology company. And as you're adopting more technology, there's more need and, frankly, there is just more deals. So we're excited about what we've seen in the momentum this year. I expect that to continue into Q4 and, frankly, going into next year.

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

Yes. We found that more deals make the sales force the more productive.

Operator

We'll take our next question from Rob Owens with KeyBanc Capital Markets.

Michael Edward Casado - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Mike Casado on for Rob Owens. I had another one on Okta for Startups. Could you guys frame your expectations for conversion rates following that first free year? Any impact that may have in margins? And I guess how you see these relationships ramping over time.

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

Thanks. This is Frederic again. That's a good question. We thought a lot about that. Frankly, our move into Okta for Startups is something that was demand-driven. We just get a lot of organizations who've been calling us as soon as they get up and running, whether it's to manage their employees or whether they're building new products and want to take identity off the shelf and put it right into those products. And that was kind of the result of it. So of course, down the road, we see that as an opportunity. As all these organizations grow, they will become commercial segment opportunities and, down the road, into the enterprise, of course. But right now, we're really focused on providing that opportunity for startups to get up and running, to use the service, to embed Okta for their customer-facing properties, to get going. We don't have any specific metrics at this point that we're looking to in terms of conversion or margin expansion.

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

The payoff there will be in 5 years when the next wave of medium-sized and large companies that are startups today have Okta embedded.

Michael Edward Casado - *KeyBanc Capital Markets Inc., Research Division - Associate*

Okay. And then, Todd, you also talked about expanding integrations as being a key area of focus for next year. I guess given your existing integration portfolio, where are you seeing the most opportunities to drive further integration? And is this an effort in that driving more differentiation? Or will they be targeting certain segments of the market?

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

Our focus there is really making our customers -- making it really, really seamless and simple and frictionless for our customers to adopt new technology, so that's the driving force behind it. We started really as integration to application. So Single Sign-On, provisioning security identity in the application. And really the innovation there has been broadening that. So it's not just other applications, it's not just integration to sales force and Workday and ServiceNow, but it's integration to other types of things, whether it's a firewall, VPN or an application delivery controller or an API gateway. So it's the types of integrations and the depths along those different types, that's where we're investing. The application, we've kind of sewn up the application race. We have that flywheel spinning, and we have over 5,000 integrations and many, many more private and custom application integrations. And it's really about the different types of integrations, so different types of the stack. Because from a customer's perspective, and that's what's most important, from a customer's perspective, they need identity integrated to everything: their firewalls, their API gateways, their devices, not just their applications. And that's a key area of focus for us.

Operator

And we'll take our next question from Sterling Auty with JPMorgan.

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

Two questions. The first one is relative to your guidance that you gave for this quarter, so that upside, you gave 3 levers for what's driving the growth. I'm curious what contributed the biggest dollar amount to that upside. Was it the expansion with existing customers, the addition -- so the 3 levers? So which of the 3 gave us the biggest dollar contribution to the upside?

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

Sterling, I think that the contributions were fairly consistent among the 3. I mean, certainly, we bought in new business as evidenced by what we talked about as far as 2/3 of the incremental customers that are now paying us under $100,000 came from new business. Expansion within those existing customers is still very strong. So I think all of the toggles that we've talked about contributed and probably contributed fairly equally across the board.

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

Okay. And then my follow-up is you highlighted one of the strategic goals for this coming fiscal year is the customer section, so the external use case. And you talked about in the past Adobe and Creative products, et cetera. But how many customers -- is it that were reaching a tipping point and it's not as much as an evangelical sale? Or what is it that you think makes this fiscal year going to be the tipping point for that business?

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

I think it's a couple of things. One is that this pressure, this relentless pressure, for every organization to become more of a technology company. What we mean by that is every organization has to build a better website, build a better mobile app, they have to build new products, they have to enhance their existing products to be more connected and more digital. So that's just a macro trend that's very, very prevalent and gaining momentum. And the second thing is, frankly, that our products are getting better there. And over the last couple of years, we've invested a lot. And what you can do with our APIs and how you can embed things and the power that you can gain and the speed to market and the productivity you can gain by using our products versus building some of these things yourself is very profound now. So I think those 2 things is why we think it's such an interesting future for that customer identity market.

Operator

We'll take our next question from Jonathan Ho with William Blair.

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

I just wanted to start out with the multi-product adoption. Can you maybe give us a little bit more color on which of the products within the platform are seeing faster adoption? And any type of color in terms of what the relative growth rates would be would be helpful as well.

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

Yes, absolutely, happy to do that. The products, the 6 products that you're talking about on the integrated Identity Cloud are all performing very, very well. I mean, from obviously Single Sign-On, which was our first product, to Lifecycle Management, Multi-Factor Authentication, they are all significantly contributing to revenue at this point, even including the latest products that we released just last year, API Access Management is now using production at very large organizations. So we're really starting to see a balance across many, if not all, of the products in terms of their contributions to revenue. And we are seeing the ability for organizations of all sizes, frankly, even in the enterprise, to land with any of those 6 products in specific use cases and expand out for there. So it's really a very productive thing that we're seeing in terms of how the different products are being used, adopted and implemented inside organizations.

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

Got it. And then you talked a little bit about making incremental investments. Can you maybe give us a sense around your philosophy between how you balance taking advantage of new opportunities but also showing that operating leverage over time?

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

Yes. So the way we historically and still look at it is we really do focus on achieving sales efficiency and measuring our sales efficiency and balancing that against what that growth -- our growth opportunities are. So we've done a good job historically of keeping that sales efficiency kind of in that range of about an 18-month payback, if not less. And we really think that given our long contract length, given the expansion opportunities we have in the business, that really does add a significant amount to our customer lifetime value by making those investments. And what we've done is historically make sure that we're balancing how we invest to over time maintain that efficiency. And that's really the way we've been focusing on it.

Operator

(Operator Instructions) We'll take our next question from Shaul Eyal with Oppenheimer.

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

Todd, success with large customers, without a doubt a point which seems to be accelerating. Is it driven by more internal budgets being allocated to identity? Is it that budgets within the security space are being allocated from one category to more of a cloud-driven one? Is it the result of some of business [market educational] and/or maybe just all of the above?

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

I think it's -- we try to have the customers give us their budget in detail, but it doesn't always work. It's a little bit hard to -- but it's a very important dynamic to understand. And the color I would add there from what we understand is that they're really -- customers are really, for the employee identity, they're really -- it's kind of 50-50 between trying to adopt new cloud and mobile technologies efficiently with ease-of-use and being more secure. In that part of the business, the security part is a bigger driver, and the security budget is the bigger contributor than it's ever been. We've seen that trend over the last 3 years, and the security driver for the internal identity market is driving more than it's ever been. But it's still probably 50-50, kind of like new technology, a facilitator for new cloud and mobile or versus security. On the customer identity side, it's -- the trends I've talked about -- the trend I talked about before where these companies are putting investment in becoming more digital, getting a great website, a great customer experience, a great mobile app. And that's something that we've seen over the last couple of years, and that continues to accelerate as well. And I think you're seeing these accelerations with both of these trends happen in faster and larger companies because the problem is bigger. They have more customers, they have more employees and they can get more value out of something like Okta.

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

And one thing I would add to that is I think when you think about managing and securing the extended enterprise, so how they're trying to make their employees more productive and more secure but also just thinking about reducing costs a lot of times, whereas when it's customer identity management, these are really new opportunities. These are new revenue opportunities, and they're thinking about top line growth, which make these opportunities exciting, and I think as we see every organizations thinking about how they can grow their top line. And in this new world, it's really about how they can do that digitally, securely with their customers.

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

Got it. This is helpful. Bill, maybe just one for you. Accounts receivable, I know it seems to be slightly up from prior quarters on a linear basis. Is this where it should be? Or is it just a sign of a slightly more back-end loaded quarter? How should we be thinking about it?

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

Yes, it's a good question. So I think it's a couple of dynamics. One is we did have some slippage in collections in this quarter, which had an impact on our free cash flow. So obviously, the receivables were a little higher because of that. But also, as we move into larger and larger enterprise customers, as we're doing and landing those customers, there is more the back-end of the quarter, so to speak, of when those -- that business gets booked. And so you're going to see a natural increase in your ARR on a period -- in the quarter-to-quarter basis because of that.

Operator

We'll take our last question from Pat Walravens with JMP Securities.

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

So I have one for Todd and maybe Freddy on this one and then one for Bill. So the first one is, can you guys just sort of update us on where the relationship with Google is? And in particular, any change since they bought Bitium in September? And then also, what is this BeyondCorp that they keep talking about? And how does that fit into your vision of the world?

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

Google continues to be a really strong partner of ours. We -- I mentioned earlier on the call, a large multinational beverage company that was one of our significant deals in the quarter, that was landed in partnership with Google. So we're continuing to collaborate with them effectively in the marketplace. So we haven't seen any change, and we don't -- we're in close partnership with them. We don't foresee any change there with that partnership. The BeyondCorp, for those of you that haven't heard, BeyondCorp is -- it's really an articulation of what is the future for network architecture for companies. So instead of having an office and a data center and a VPN, you have basically users accessing things all over different networks and then you have a personal level of security about each user. That's how you secure it versus the firewall perimeter. And it's really the design pattern that we facilitate because to have BeyondCorp, you have to have that personal level of identity and security, and that's what we do. So we are evangelizing BeyondCorp. We hope more and more people adopt it because we're -- we provide a key, key part of that design pattern.

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

Great. And then, Bill, so in my model, and it probably goes back further than my model goes, but I think this is 9 quarters in a row where subscription revenue per customer has gone up. Any reason that, that shouldn't just keep happening?

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

Well, we've been very pleased with the fact that it's happening today. And certainly, what that's being driven by is more and more customers that we're getting; better, larger enterprises paying us, as we said in the metric that we talked about today, greater than $100,000 a year. We think there's tremendous opportunity going forward as we both land and have expansion in those customers for all the reasons we talked about as far as their need for moving to the cloud, digital transformation vis-a-vis their customers. And so we're pretty pleased with that trend, and we do think there's a tremendous amount of opportunity for us there in the future.

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

And I would just -- I would highlight that it's part of our strategy. This is a platform strategy. So the Identity Cloud is a broad platform with multiple products that traditionally, in the past, have been done by different vendors, and we brought them together. So it's part of our strategy to have this platform that can be adopted with one solution or one use case, and then more and more solutions and products and use cases adopted over time as the usage of the platform expands. So it's built into our technical strategy, our product strategies, and it's good that we -- it's positive that we've seen it borne out over the last 9 quarters, to use your figure, I haven't validated that figure myself. But we -- that's part of our strategy going forward as well. So it's a good thing to call out because it is important to us.

Operator

And that does conclude our question-and-answer session. I would like to turn the conference back over to Todd McKinnon for any additional or closing remarks.

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

So I would just like to close out the call by saying that with the success we've had so far in the first 3 quarters of this year, we feel like in a lot of ways we're even more energized than ever because every success we have just really tells us how big the opportunity is for the identity cloud and really for the impact we can have as we help customers adopt this next wave of technology, both for internal use for their employees and also as they become technology companies themselves. So it's a big mission, it's a big opportunity that we're working on. And we're excited about the progress we've made, but we also are working hard to make sure that their success continues for the future.

So with that, we'll wrap it up. Thanks for your attention, and we look forward to seeing many of you on the road in the coming weeks and months.

Operator

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