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CORPORATE PARTICIPANTS

Brett Tighe *Okta, Inc. - CFO*
Dave Gennarelli *Okta, Inc. - VP of IR*
Jacques Frederic Kerrest *Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO*
Todd McKinnon *Okta, Inc. - Co-Founder, Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Adam Charles Borg *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*
Adam Tyler Tindle *Raymond James & Associates, Inc., Research Division - Senior Research Associate*
Brian Lee Essex *Goldman Sachs Group, Inc., Research Division - Equity Analyst*
Eric Michael Heath *KeyBanc Capital Markets Inc., Research Division - Research Analyst*
Fatima Aslam Boolani *Citigroup Inc., Research Division - Director & Co-Head of Software Research*
Gray Wilson Powell *BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst*
Gregg Steven Moskowitz *Mizuho Securities USA LLC, Research Division - MD of Americas Research*
Hamza Fodderwala *Morgan Stanley, Research Division - Equity Analyst*
Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Technology Analyst*
Joshua Alexander Tilton *Wolfe Research, LLC - Research Analyst*
Justin Micahel Donati *Wells Fargo Securities, LLC, Research Division - Associate Analyst*
Keith Frances Bachman *BMO Capital Markets Equity Research - MD & Senior Research Analyst*
Matthew George Hedberg *RBC Capital Markets, Research Division - Analyst*
Rudy Grayson Kessinger *D.A. Davidson & Co., Research Division - SVP & Senior Research Analyst*
Trevor James Walsh *JMP Securities LLC, Research Division - VP and Equity Research Analyst*

PRESENTATION

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

Hi, everybody. Welcome to Okta's First Quarter Fiscal Year 2023 Earnings Webcast. I'm Dave Gennarelli, Senior Vice President of Investor Relations at Okta. With me in today's meeting, we have Todd McKinnon, our Chief Executive Officer and Co-Founder; Brett Tighe, our Chief Financial Officer; and Frederic Kerrest, our Executive Vice Chairman, Chief Operating Officer and Co-Founder.

Today's meeting will include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements regarding our financial outlook and market positioning. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

Forward-looking statements represent our management's beliefs and assumptions only as of the date made. Information on factors that could affect the company's financial results is included in our filings with the SEC from time to time, including the section titled Risk Factors in our previously filed Form 10-K. In addition, during today's meeting, we will discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. A reconciliation between GAAP and non-GAAP financial measures and a discussion of the limitations of using non-GAAP measures versus their closest GAAP equivalents is available in our earnings release. You can also find more detailed information in our supplemental financial materials, which include trended financial statements and key metrics posted on our Investor Relations website.

In today's meeting, we will quote a number of numeric or growth changes as we discuss our financial performance. And unless otherwise noted, each such reference represents a year-over-year comparison.

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

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

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Before getting into our Q1 results, I thought it would be helpful to first talk about the security event from last quarter. Okta has a culture of learning and improving, and we're moving forward with our core values of love our customers and transparency as the foundation. By now, I'm sure most of you are familiar with the conclusions we shared coming out of our investigation. You can find the details on our new Transparency web page.

In the days and weeks following the incident, we connected with thousands of customers. We have committed to taking action on a number of fronts, including requiring more robust security measures from our third-party service providers and better processes for communications, which reflect the input from our customer conversations.

One theme that has become crystal clear from these customer conversations is that Okta is even more critical than ever to an organization's IT environment and security posture. Additionally, these conversations further strengthened our belief that as cloud deployments proliferate, there will be just a few primary clouds that really matter inside an organization. Identity is the connective tissue to all of the other primary clouds as it facilitates choice and flexibility while enhancing security and reducing risk in other technologies. Okta is well positioned to establish itself as a primary cloud and the standard for digital identity.

Finally, I'm sure this audience is wondering what impact the security incident had on our financial results. While we've done a lot of analysis, it's difficult to attribute any quantifiable impact on our solid Q1 results. When looking at key indicators, our competitive win rates and renewal rates have remained strong. In Q1, RPO grew 43% and current RPO grew 57%. Total revenue grew 65% and Okta standalone revenue grew 39%. New customer additions remain strong at 800, bringing our total customer base to 15,800, representing growth of 48%. We also continue to do well with large customers.

In Q1, we added over 200 customers with $100,000 plus ACV. These new large customers continue to be balanced between new customers and upsells. Our total base of $100,000-plus ACV customers now stands at over 3,300 and grew nearly 60%.

Here are just a few notable examples of customer wins in Q1, which come from a wide range of industries. A Fortune 500 insurance company was a great Okta SIEM and Workforce win. What's more, this customer was sourced through the AWS Marketplace, which has been doing well for Okta since we became available there in late 2020. The company sought best-of-breed tools to modernize the organization's aging IT infrastructure. Their legacy on-prem tools lack the capacity and stability to meet the needs of the business. Okta will provide a cloud-native identity solution to support their modernization efforts, while also addressing their on-prem infrastructure needs with Okta Access Gateway.

Next, a Fortune 50 global retail pharmacy was a fantastic new Okta SIEM win this quarter. The organization was facing significant shortcomings in functionality and rising maintenance costs with its legacy system, which resulted in a negative user experience and lower customer retention. The organization chose Okta as its partner to modernize its identity strategy and build deeper relationships with its tens of millions of global customers across multiple brands through secure omnichannel digital experiences.

We had a strong Auth0 win with a Fortune 50 shipping and receiving company. They selected Auth0 to support its digital transformation journey and to improve their customer experience by adopting innovative technologies. Auth0's ease of use, flexibility and customization prove to be the best solution.

Finally, TripActions, an all-in-one travel, corporate card and expense management company was another great example of a new Auth0 win with an existing Okta customer. TripActions has leveraged Okta Workforce products since 2019 to secure access to its employees and enhance its provisioning capabilities. Now Auth0's scalability, reliability and ease of deployment will support TripActions as it prepares for continued growth while freeing up developers to focus on application modernization.

Last month, we celebrated the 1-year anniversary of joining forces with Auth0. We've made a lot of progress as a combined company, with many parts of the back office functions integrated over the course of FY '22. We started the first quarter of this year with the combination of the go-to-market organizations. Together, we are addressing the massive customer identity market in a way that no other vendor or in-house IT team can.

On the product front, we're excited for the North American launch of Okta Identity Governance later this quarter, after a successful early access program. Customers are seeking a cloud-first approach to their identity governance needs and Okta Identity Governance brings modern IGA to the market.

Part of how we build demand and pipeline is through in-person customer engagement. Our annual Oktane user conference is always a fantastic touch point for existing customers and prospects. This year, we're augmenting Oktane with a series of smaller regional events. Just a few weeks ago, we hosted the first Okta City Tour event in New York City.

I can't overstate how energizing it is to be physically in front of customers again. And the team could really feel the excitement in the room. There were hundreds of current and potential customers in attendance, and not surprisingly, the common theme was that every company needs an identity-first strategy that solves for today and build for tomorrow. We'll be hosting more customer events across the U.S., Europe and APAC as we lead up to Oktane in early November.

Speaking of customer conversations, Okta was the only vendor recognized as an overall access management customer's choice and a customer's choice across all categories evaluated in a recent Gartner Peer Insights Voice of the Customer Report. This distinction is based on customer reviews of both Okta and Auth0 product offerings. This is the fourth time in a row that Okta has been recognized as a customer's choice in this report.

To wrap things up, it's going to be an exciting year. We're best positioned to execute against a massive $80 billion addressable market, driven by the 3 megatrends of the deployment of cloud and hybrid IT, digital transformation projects and the adoption of Zero Trust security. Our win rates remain very strong. Okta has become even more strategic to organizations and we're the recognized leader in the market.

Now here's Brett to walk you through more of the Q1 financial details and outlook for FY '23.

Brett Tighe *Okta, Inc. - CFO*

Thanks, Todd, and thank you, everyone, for joining us today. I'll start with some of the results for the first quarter as well as provide our business outlook. Total revenue for the first quarter accelerated to 65%, driven by a 66% increase in subscription revenue. Subscription revenue represented 96% of our total revenue. On an Okta stand-alone basis, total revenue grew 39%. Auth0 revenue net of $1 million in recognized purchase accounting adjustments was $66 million. We've reached the 1-year anniversary of the acquisition, and as a reminder, we will not be breaking out Auth0 contributions going forward.

RPO or backlog, which for us is contracted subscription revenue, both billed and unbilled that has not yet been recognized, grew 43% to $2.71 billion. Current RPO, which represents subscription revenue we expect to recognize over the next 12 months, experienced growth of 57% to $1.41 billion. The growth in current RPO was driven by strength across new and existing customers for both Okta and Auth0. We view current RPO as the better metric to assess our quarterly performance relative to calculated billings, which, as we've noted, can be noisy due to fluctuations in invoice timing and duration.

Calculated billings grew 52% when adjusted for the billings process improvements and current calculated billings grew 54%. Calculated billings as reported, grew 7% and current calculated billings grew 8%. It's been 1 year since we adopted the billings process improvements that were implemented in Q1 of last year. We are looking forward to consistent year-over-year comparisons going forward.

Turning to retention. Our dollar-based net retention rate for the trailing 12-month period remains strong at 123%. This was driven by the strong upsell motion we are seeing with our existing customers across both Okta and Auth0 as they expand on both products and users. Consistent with prior quarters, gross retention rates remained very healthy and reflect the value of our products to our customers. As always, the net retention rate may fluctuate from quarter-to-quarter as the mix of new business, renewals and upsells fluctuates.

Before turning to expense items and profitability, I'll point out that I will be discussing non-GAAP results going forward. Now looking at operating expenses. Total operating expenses grew 68%. The growth in expenses is primarily attributable to the inclusion of Auth0. Total headcount now stands at over 5,300 employees, up 75% year-over-year.

Moving to cash flow. Free cash flow was $11 million, which yielded a 2.7% free cash flow margin. We ended the fourth quarter with a strong balance sheet anchored by $2.5 billion in cash, cash equivalents and short-term investments.

Now let's get into our financial outlook. For the second quarter of FY '23, we expect total revenue of $428 million to $430 million, representing growth of 36%. We expect current RPO of $1.48 billion to $1.49 billion, representing growth of 35% to 36%. Non-GAAP operating loss of $44 million to $43 million and non-GAAP net loss per share of $0.32 to $0.31, assuming weighted average shares outstanding of approximately 156 million. For the full year FY '23, we are raising our revenue outlook and now expect total revenue of $1.805 billion to $1.815 billion representing growth of 39% to 40%. Additionally, we expect non-GAAP operating loss of $167 million to $162 million and non-GAAP net loss per share of $1.14 to $1.11, assuming weighted average shares outstanding of approximately 157 million.

Lastly, I want to provide a few comments to help with modeling Okta. To help with your transition to modeling on current RPO, we will continue providing a full year billings outlook for FY '23 before discontinuing any reference to billings in FY '24. We continue to expect billings for FY '23 to be approximately $2.18 billion to $2.19 billion, representing growth of 35% to 36% when viewed on a like-for-like basis or 27% on an as-reported basis. From a seasonality perspective, we anticipate billings in the second half of the year to represent roughly 60% of the full year total, which is consistent with normal seasonality and our comments last quarter.

And finally, we continue to expect free cash flow margin for the year to be a few points lower than last year and quarterly free cash flow margin to follow pre-COVID seasonal patterns, with Q4 being the strongest. Our long-term financial goals anchor on at least $4 billion of revenue in FY '26 with organic growth of at least 35% each year and 20% free cash flow margin in FY '26. To achieve these targets, we will continue to scale the company from a people and processes standpoint, including investing in talent across all areas of the company as well as in systems to prepare us for the next phase of growth.

For many years, we have looked at growth and profitability through the Rule of 40 lens. We continue to do so and expect to stay over 40 for the fiscal year. We have demonstrated the powerful leverage we have in our model, and we are committed to improving profitability and free cash flow margin each year on our way to the FY '26 goal.

To wrap things up, we had a solid quarter and look forward to building on our progress. With our strong foundation and market leadership position, we plan to further capitalize on the $80 billion market opportunity in front of us. We have a powerful financial model and expect to benefit from substantial operating leverage over time.

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

QUESTIONS AND ANSWERS

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

Thanks, Brett. I see that there are already quite a few hands raised, and I'll take them in order. (Operator Instructions) So first hand raised I saw was Hamza Fodderwala from Morgan Stanley.

Hamza Fodderwala ***Morgan Stanley, Research Division - Equity Analyst***

Todd, to the best of your knowledge, do you know of any sales cycles that were perhaps elongated or perhaps any prospects that were in the pipeline that may have withdrawn their consideration of Okta after the incident back in March?

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

We've looked and we can't see any quantifiable impact. I actually spent a good amount of time myself looking through opportunity by opportunity in Salesforce because as you know, I just talked to over 400 customers after the security issue. And the management team talked to over 1,000 customers. So we really heard the concerns firsthand and responded to them with our detailed action plan. And so I was curious, as we did our analysis, like I wanted to see for myself on the ground what was happening. So I look through hundreds and hundreds of opportunities, myself looked at the comments, looked at things that were pushed, looked at the reasons why they were pushed. In the normal course of business, of course, things get pushed, things get pulled in, but I wanted to see for myself.

And I was really surprised the lack of anything about lapses impacting the business. But I do think it was a significant issue for us. It was -- in terms of impacting our time, we're focused on at the management team level, it was significant. And I would never say something is positive -- something like this is positive for the company. But if you do want to take a positive view on it, the conversations were really good. And I think that our customers got to see firsthand our focus on them and our focus on how we're 100% committed to making them successful. And when we have a mistake, when we do something, we could -- when there's something we could do better, we listen to them and we take action and we build that long-term partnership that they crave.

And one thing that this has made really clear is that Okta is critical infrastructure and identity is critical infrastructure. And I think customers want to see a company that will come through under pressure and have their back under pressure and act in there just under pressure. I think that's what they saw. So as we start to put in the rearview mirror, I feel really, really -- I feel pride in how we responded and the fact that we're building a stronger company because of it.

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

Great. Next question comes from Adam Tindle at Raymond James.

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

Okay. Brett, I just wanted to ask you, when you're talking about the fiscal '26 targets, you talked about continuing to invest to get there. Obviously, in this market, there's been a lot more focus on profitability lately. And I'm just wondering about the balance between those 2? And maybe more specifically, do you think Q1 was sort of a peak loss quarter and we're going to see continuous improvement from here? I know there's been fits and starts with profitability, but trying to get a sense of whether the worst is kind of behind us, why or why not.

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

I'll jump in first, Adam, and then Brett can give his feelings as well or answer your question from his perspective. Obviously, I've talked to a lot of investors and I hear the questions that are about growth and profitability. And I think about this pretty simply from a high level that we have a massive market opportunity. I know you hear us say that a lot but it truly is -- it's a transformative market opportunity. The world needs identity with more cloud and more remote work and more focus on security, more digital transformation. They need an identity platform. And we're very focused on building that identity platform and investing -- making the right investments to bring our vision to fruition.

We also know that to run a good company, you have to run it efficiently. And when I look at the trade-offs between growth and profitability, I feel like we've always had a reasonable trade-off between investing for the future, but doing so in a way that was -- the investments were -- we made sure the investments are paid back. We're not running around making investments that are prudent and we continue to operate that way. And I feel like it would be shortsighted to change course dramatically on that, when we still have this massive opportunity in front of us.

Brett Tighe ***Okta, Inc. - CFO***

I'll just add to that. Thank you, Adam, for the question. Look, I mean we remain confident in the model and just what Todd was saying, we've been balancing Rule of 40 since the beginning of this company, and we will continue to do so in the future. So balancing that growth and profitability over time as we go into this massive market opportunity in front of us.

As far as more specifically to your question around the seasonality of the free cash flow in FY '23, if you look at pre-COVID free cash flow, we did traditionally have a dip in free cash flow margin in Q2. So we do expect that to drop kind of in that mid- to high negative free cash flow margin percent in Q2, but then we will exit the year with the highest free cash flow margin in Q4, which will then get us to that, a few points lower than FY '23 or FY '22 free cash flow margin. So hopefully it gives you a little bit more information about how we're seeing that traditional kind of seasonality return in our business.

And the primary reason for that is if you think about the way we bill our customers, the collections number in Q2 is traditionally the lowest because we collect a lot of money in Q1 from the Q4 strength in bookings. And Q1 has always been seasonally our lowest sales quarter, and we're continuing to see that this year as the lowest seasonal amount of the year. And so we build back up as we go through the year. And so ultimately, that's why you see that little bit of a dip in free cash flow margin in FY -- in Q2, just like we've seen in prior years, prior to COVID.

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

And Brett, can you clarify what you said around mid- to single high -- single digits?

Brett Tighe ***Okta, Inc. - CFO***

Yes, mid- to high single digits, sorry, if I didn't say single digits in terms of free cash flow margin.

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

Great. Right. Next up, we have Jonathan Ho from William Blair.

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

I just wanted to, I guess, maybe start out with trying to understand, I guess, your sales integration process. How has that gone? And can you give us a sense of maybe some of the incremental opportunities that have come out of that?

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

Yes. Jonathan, it's nice to see you. We just celebrated the 1-year anniversary of joining forces with Auth0, which is great. And as we've said in the past, the key here is keeping the momentum going in both Okta and Auth0. Both businesses were doing very well, and that's the continued focus. We've made a lot of progress as a combined company. Many parts of the back office functions were integrated over the course of FY '22, which is great. And we started Q1 with the combination of go to -- combining the go-to-market organizations.

I think there's no real finish line when it comes to integrations. But I think we're really focused on addressing this massive customer identity access management market in a way that, frankly, no other vendor can in terms of independence and neutrality, we have the only 2 modern public cloud solutions and certainly no in-house IT can. So I think we've made great progress. There's still a little bit to do, but we're in good shape.

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

Next question from Eric Heath at KeyBanc.

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

Great. Just first one, curious if there's any update around how you're considering the contribution of IGA and or PAM into your guidance? I believe last quarter you said it wasn't being factored in.

Brett Tighe ***Okta, Inc. - CFO***

Go ahead, Todd.

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

Sorry, Brett. IGA and PAM are areas we've talked about before. They aren't in our guidance. We're not counting on material contribution in the guidance we provided. They're really longer-term plays, and they're very important in the longer term because we're building this primary cloud for identity. And what the market wants, what the buyers want, what the customers want is they want one integrated access management platform that will do access management across all the resources, apps, on-premise apps, cloud apps, servers, privileged accounts and also do the governance reporting in attestation on that access -- on those -- on that access management.

So that's a platform we're building. And as I mentioned in the prepared comments, the IGA product is going to be launched in North America this quarter. We're very excited about that. It's had great success in the early access program. which proves out not that it's just -- not only that it's working, but also the customers want to buy it and find them valuable. So that's very validating. On the PAM side, we've made the decision to add a few more features to our Advanced Server Access Management product. And that then pushes out the release of the PAM -- the initial PAM product a couple of quarters. And we'll have more updates for you on that through later on in the year, but we're excited about both areas. And the whole converged platform story is really, really coming together. We're excited about that.

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

Okay. Next, let's go to Gray Powell at BTIG.

Gray Wilson Powell ***BTIG, LLC, Research Division - MD & Security and Analytics Software Analyst***

Okay. Great. And congratulations on the numbers. It's good to see them come through. So yes, Todd, it sounds like you're pulled into a lot more customer conversations this quarter than normal. So maybe 2 related questions, if it was an existing customer, how often do the conversation get elevated to a C-level executive versus sort of the typical security team that you'd be talking with? And then if it was a new customer, did you see them taking any extra steps through the deal process? Was there like an extra conversation or just something extra that happened to get them over the finish line?

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

Yes. Thanks, Gray. It's nice to see you. The -- my customer conversations, I talked to a lot of customers in general. There were a bunch of very specific security issue conversations. And what we did as a management team is -- this is a big deal for customers. So we got on Zoom with them and had hundreds and hundreds of meetings to talk to them about what happened, reassure them that we were listening to their concerns, we were addressing their concerns and have a published action report that we're executing on that takes into account all of those concerns. So we wanted to be very proactive about it, do a lot of outreach, a lot of conversations and reassure them that we had things under control.

During those conversations, I was -- I said before that it's -- you never want to say there's a positive out of something like this. But the level of conversations and the people we were engaged with in these customers and prospective customers was incredibly senior. And the conversations after some initial communication and feedback became very strategic along the lines of we're counting on you to be the backbone of our entire technological infrastructure. Things like this, with very senior people, both on the -- traditionally where we've been really strong, having conversations on the IT side and on the security side, we've got into new areas like executive management, Board-level conversations, risk and compliance and areas that traditionally we haven't talked to as much.

So the conversations were productive in that sense. And I think we did a good job of instilling confidence because customers do want to partner and they want a long-term partner, and they know that this is a critical area, and I think we were able to show them that we were that partner.

Brett Tighe ***Okta, Inc. - CFO***

Yes, Gray, I would just add, look, identity and security, if they were not before, have certainly become even more so top priorities for C-level executives and Board members. The future of the enterprise is going to be more software-enabled, not less so and identity is at the core of that. And as Todd said, a lot of these larger organizations are literally saying, "I'm looking for a foundational partner around identity to build out my infrastructure."

Just yesterday, we had the global CIO of one of the major branches of the DoD in our office with his entire executive team talking to us for the entire day about the future of identity and what it was going to look like. And I mean these are just the kinds of conversations, frankly, that regardless of what happened in Q1 with that security event or not, we were not having these conversations 6 or 12 months ago, and I think it portends very well for the future.

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

Let's go to Gregg Moskowitz at Mizuho.

Gregg Steven Moskowitz ***Mizuho Securities USA LLC, Research Division - MD of Americas Research***

All right. So you added 800 net new customers this quarter which, given the security incident, was better than most investors were expecting. Two questions here. First, can you provide some color on what the linearity of new paid customers look like this quarter? And then second, so Brett, I know you said that gross renewal rates were very healthy. But just to be clear on this point, was there any degradation in Q1 as a result of the incident?

Brett Tighe ***Okta, Inc. - CFO***

No degradation from the incident. In fact, we were near all-time highs at this point on gross retention, which frankly just shows both Freddie and Todd have been talking about for the first part of this call, which is how important we are to our customers, right? We are critical to their success. As far as the linearity in the quarter, it look like any other quarter. Our Q1 linearity was like a normal Q1 linearity. So we've -- like we said, we don't see any real quantitative effects from the security incident. Believe us, we've looked. And obviously, we're going to continue to look because we're being thoughtful about this and making sure that we're keeping an eye on this because this has been an important issue for us.

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

Okay. Next, we'll go to Josh Tilton at Wolfe Research.

Joshua Alexander Tilton ***Wolfe Research, LLC - Research Analyst***

cRPO, I believe, came in kind of ahead of the guidance you gave last quarter, but billings was sort of in that range. So how should we think about your ability to outperform on both these metrics for 2Q and kind of for the rest of the year?

Brett Tighe ***Okta, Inc. - CFO***

Yes, I can take that question. Look, I mean, we had a good quarter, billings, 52% calculated billings growth. Current was -- current calculated billings growth was 54%. Both those are adjusted for the billings process change. But look, we've talked to you for several quarters in a row on kind of why we're alluding to shifting off of billings to current RPO in FY '24 as we just frankly believe billings has got some noise in it. And sometimes it helps the growth rate, sometimes it makes the growth rate have a headwind to it.

And I look at it in kind of like 2 different buckets. I look at it as kind of like operational run-the-business type issues that can influence the growth rate up or down. And I put the kind of, I think, we've talked about in the past, which are invoice timing dynamics that we've obviously chatted about over the last several quarters, invoice duration and then the billings process changes. These are operational things that are going on that we're making the decisions at the time that we believe were in the best interest of the long-term health of the business. But they can influence the metric up or down and in kind of an incorrect way. And so that's why we've kind of shifted us more towards current RPO. That's one bucket of kind of like one umbrella of areas that we think make calculated billings as really just not the best metric.

And then the second one, which I would argue was actually even more important is if you think about the correlation between billings and future subscription revenue growth, it is much weaker than the correlation between current RPO and future subscription revenue. And so that's why we've been talking more about current RPO these days. Look, the current RPO guidance, 35% to 36%, $1.48 billion to $1.49 billion. Strong growth in the business. But one thing I do want to point out between the growth rates from Q1 to Q2 in a lot of our metrics, we've got the annualization of Auth0.

So obviously, 57% current RPO in Q1 for the full company. And then 35% to 36% in Q2. Nothing is going on other than the fact that Auth0 is not in the Q1 compare period and is in the Q2 compare period. We're going to see that also in billings. We're going to see it in the customer count numbers. So I just want to make sure everybody is aware that, that's really the reasons for the change.

And like I said, we're going to continue to push more towards current RPO, like I said earlier in the call. We're definitely going to get off of billings in FY '24 and really just focus on current RPO because ultimately, we feel it is a better metric for all of us to discuss because of the higher correlation and just a better metric to understand how the health of our business is going.

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

Great. Next we'll go to Keith Bachman of BMO.

Keith Frances Bachman ***BMO Capital Markets Equity Research - MD & Senior Research Analyst***

Great. I wanted to ask a question about also the investment horizons and break it into 2 parts is, a, as you think about some of the investments you're making this year and longer-term profile, how much of the competitive landscape is influencing that? And what I mean by that is Microsoft is a formidable player. You have another pure plays and yet you're leaving yourself a lot of opportunity to shape investments through FY '26 before generating meaningful cash flow. So just trying to understand how much the competitive nature of the segment is influencing it.

And then, b, Brett, in particular, I want to try this question again. You're guiding to call it, $165 million op loss this year. Can you at least comment on your journey to '26? Does the operating loss improve as you march towards '26?

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

Yes, I'll take the first part. I think it's a really important question. The strategy is very, very clear. We have been successful. And going forward, we will be successful because identity has become a critical, critical platform in the modern IT environment. If you want to adopt cloud, if you want to migrate to the cloud, if you want to support remote work, if you want to support multiple devices, if you want to do it in a secure way, if you want to build a great customer-facing solutions, you need identity and you need it in your platform.

And so the strategy is to build that platform, whether it's across both markets and both markets are key. You can't have the de facto primary cloud identity platform only being in Workforce or only being in customer identity, you have to be in both. You have to dominate both. So our strategy is to do just that. On the Workforce side, we're extending our lead with capabilities throughout the platform. We've talked a little bit about PAM and IGA, which are important in the longer term. And on the customer identity side, it's -- we have to have the best identity platform for developers. And we have to have the best identity platform, bar none, across all the competitors. So that's what we're focused on.

If you look at our top 3 and the investment required to do that is an investment that's going to help us win the customer identity market, which is our top company priority for this year. It's going to help establish this concept and this idea that identity is one of this primary cost in enterprises. And we're going to talk to every CIO and every CEO and every Board of Directors, in a few years, once we are successful. And they're going to agree that identity is a critical investment area and Okta has the #1 leading identity platform across all these dimensions.

So that's what we're shooting for. And that's what when we say we're going to grow and we're going to invest, it's both products, it's both go-to-market to extend our lead and establish this concept of this primary identity cloud for many years in the future.

Keith Frances Bachman ***BMO Capital Markets Equity Research - MD & Senior Research Analyst***

Okay. Okay. Great. And then Brett, any comments on...

Brett Tighe ***Okta, Inc. - CFO***

Yes. Happy to answer that question. So when we think about the future, obviously, we're going to institute what we've done in the past, which is Rule of 40, right? We've been balancing it forever. We're going to continue to balance it in the future. So obviously, free cash flow is a part of that formula. But when you think about non-GAAP operating loss, obviously, non-GAAP operating loss will travel with that free cash flow improvement. Now when it will be non-GAAP operating profit, I can't exactly comment on that. But in other words, you should see the 2 travel together. As we improve free cash flow margin, you're going to see an improvement in operating loss and eventually into operating profit at some point in the future.

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

Okay. Next, we'll go to Trevor Walsh at JMP.

Trevor James Walsh ***JMP Securities LLC, Research Division - VP and Equity Research Analyst***

Great. Todd, I want to just dig in on some of your comments around the longer-term platform view in the context of IGA and PAM. So it seems like customers, especially on the larger side, are content with kind of maintaining their IGA tool, their PAM tool and their access tool, and that's just their kind of comfort level. And I understand you're building obviously your IGA and PAM to kind of help expand their view of that.

But outside of you just releasing those products and them coming to you, what do you feel like is their consolidation kind of drivers on their end? Is it a cost thing? Is it a ease of use? What is it that's going to make them kind of finally, again, regardless of when GA is here of make them kind of make that play?

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

Yes, I think it's a really good question. And we think about this a lot from the customer lens into the market and then, of course, us as a vendor from our lens into the customer's world. And there's a couple of realities about the market for privileged access and identity governance, specifically. And access management used to be more like this, but we've changed it in that market.

There aren't a lot of good solutions. And if you talk to these customers, even customers that have adopted IGA, they haven't adopted it completely or it's in pockets or it's not covering all the resources and workloads that they wanted to cover and no one loves it. And similar to privileged access, it's worked well in a legacy environment. And so I would say that a majority of the market doesn't have a solution and what it's going to take to get that -- to get those customers to be buyers is to build a great product, and that's what we're focused on.

So I wouldn't think about this as we're going to go replace a bunch of installed IGA or PAM tools. I would think about this as like the next generation of technology is going to need these solutions, and we're going to have the product for that market. In terms of what specifically would drive them to consolidate their existing solutions, I would put out there that in 10 years, they probably will keep those solutions. And people don't change very often. People are pretty reticent to change and it's fine if some of these legacy solutions that are out there for years, years and new years and years. What we're focused on is the next generation, the new projects, the new initiatives that are going to need a better product for the market, and that's what it is.

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

Next we'll go to Adam Borg at Stifel.

Adam Charles Borg ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Maybe just for Freddie. So you talked a little bit about the DoD conversations you had yesterday. Maybe just a broader update on the federal vertical, public sector more broadly and kind of how you think about that ramp this year?

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

Yes. Thanks, Adam, for the question and happy to talk about it. I'm glad that you brought it up. The federal government opportunity is a massive one for us. And I'll give you some specific thoughts and then I'll give you also some details that I think are pretty relevant most recently. First of all, we've talked about for a while that part of our big strategic plan, there's a few of them that we're focused on right now for this year and going into next year on customer identity management, around international, we're already in a lot of the places we need to be. So we just need to continue to invest in the right places. And then in federal is a big one for us.

First of all, federal was the biggest deal of our quarter this year -- this quarter in terms of ARR. And that federal division was specifically focused on customer identity and access management. And you really see that the government is thinking about how they can adopt more of these modern solutions for a lot of their forward-thinking initiatives. You -- we've been working for a long time on bolstering up our federal capabilities. And we've got -- we've been FedRAMP Medium, Moderate for some time. We've got FedRAMP High and IL4 that are scheduled for this summer.

We've got a fantastic federal team that's been building up with very, very good results. We've got a government summit that's happening later on this month in Washington, D.C. And the tailwinds in the federal space are the same ones that we've been talking about overall in the business.

First of all, the federal government is adopting more cloud technology, and they want to integrate it into their existing IT infrastructure. Number two, they are going through digital transformation, just like everyone else, and so they're really focused on how they can provide modern solutions, get them up and running quickly and obviously interacting with their third parties. And then third of all, you want to talk about Zero Trust. It's everything from the Biden administration to a lot of the other initiatives that you see coming out of the different departments around mandating multifactor authentication and just mandating better hygiene when it comes to the federal government, which for us is great.

So it is a huge opportunity. It's one we've been investing in intelligently over the last number of years. I think the results this year are going to be good, and they're going to be -- they're going to lead us really well into the coming years as well. So it's a big opportunity for us and something we're really focused on.

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

Okay. Next up, Rudy Kessinger at D.A. Davidson.

Rudy Grayson Kessinger ***D.A. Davidson & Co., Research Division - SVP & Senior Research Analyst***

Great. Brett, so I mean look, Todd, you've been clear thus far with your comments that you didn't see any material impact from the breach in Q1. But I guess, if we look at the guidance revision, you took the full year revenue guide up by $25 million, but you had a $26 million beat in Q1. So really taking down $1 million ex that. So whereas typically, we would expect it to be raised. So what is the increased level of conservatism in there? And is it around the breach possibly having potential impacts? Or is it more of a increased conservatism from the macro environment? What's the increased level of seemingly conservatism in the revised guidance?

Brett Tighe ***Okta, Inc. - CFO***

Yes. So we did raise our guidance by $25 million. And I think we did beat our guidance by $25 million, so, whatever, $1 million here or there, it doesn't really matter. But the bottom line is we've got a strong guide, a little over $1.8 billion, growing 40% at the top end, pretty solid growth given how big we are. But I think the thing when we think about the guidance for the full fiscal year is actually reflecting on Q1 and one of the milestones we had in Q1, which is the sales integration, right?

And any integration or acquisition and integration of 2 companies, the sales integration is one of the biggest milestones there are. And for this integration between Auth0 and Okta, 2 great sales teams being brought together, it's no different, right? It was a great milestone for us. It was a big one for us, and we're pleased with the progress, thus far.

But obviously, we're being thoughtful and prudent around the rate and pace of the continued integration because integration -- there's no end date to integration, right? We're always continuing to make progress. And so when we think about the revenue guidance, we're just being thoughtful from that perspective. And we'll update you, obviously, as we progress through FY '23 on how things are going and give you guys updates on revenue and cRPO, and obviously, billings through the balance of this year.

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

Okay. Next up, we have Andy Nowinski at Wells Fargo.

Justin Micahel Donati ***Wells Fargo Securities, LLC, Research Division - Associate Analyst***

This is Justin Donati on for Andy. Just one quick one, kind of tying on to an earlier question about competition. Microsoft launched their new Entra product suite this week. So can you just provide any more color on how Okta is competing against Microsoft?

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

Yes. Happy to do that. The competitive environment we're seeing is really hasn't changed in a number of years. I know we seem to get this question every time we chat and we kind of give the same answer. That's the reality of what we're seeing. And I think the world has -- more and more of the world is understanding how important identity is and how critical it is to all the things we talked about, from technology adoption, security, customer management and customer success. And it's really accelerating or it's benefiting from all these accelerated trends.

And I think when we see competition, we see point players that don't have the breadth and scale or we see the big platforms. And Microsoft, as you mentioned, it probably has the most focus of the big platforms. They, traditionally in the legacy world, have the best identity franchise with Active Directory on-premise. And so they've tried to use that to force their way into cloud identity.

And when someone chooses between Microsoft and something like Okta, they're really making a choice between do they want independence and neutrality and do they want technical choice with Okta or do they want to be more roped into the -- constrained into the Microsoft ecosystem. And I think if you see all the product announcements, not just the recent ones, Microsoft makes, they're very, very centered on Microsoft technology.

And it makes sense because you wouldn't get promoted if you were the product manager working on their identity technology, and you came up with a great new feature that connected customers to some non-Microsoft technology. So there's a feedback loop into that platform that keeps that system more closed and more constrained and a positive feedback loop in our ecosystem that makes it connected to more things and more vendors want to play with us and want to integrate to us, more developers want to use us. And so that's how we see the market really bifurcating there.

And we think our strategy is right. We think our strategy to be the neutral player and to connect everything and to have the best solutions across all of the identity use cases, whether it's workforce, governance, privileged access, customer identity access management, whether you're developer-centric, whether you're IT-centric, we have the best platform, and that's what we're focused on building.

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

Great. Next up, we'll go to Brian Essex at Goldman.

Brian Lee Essex ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Great. Maybe just one from me, and I apologize I've been jumping around on a couple of calls so...

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

There's a few of them. No worries.

Brian Lee Essex ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Yes. Sorry if I missed it, but maybe just an update on SIEM versus Workforce and maybe if we can spot that between U.S. and international, just to give us a sense for how traction, in particular where SIEM is going and what the current environment, particularly in Europe, might have on the adoption of either one of those segments.

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

Yes. Happy to talk about that, Brian. We updated this group last quarter on the specific breakout between Workforce and SIEM, which if memory serves, and Brett can correct me, with 63% Workforce; 37% SIEM.

Brett Tighe ***Okta, Inc. - CFO***

Yes.

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

There you go. It's a memory from 90 days ago. So we'll be updating that as we go. It is largely unchanged. Revenue splits this quarter were 78%, U.S.; 22% international. But international grew 118% year-over-year. And I think that plays really well into exactly what I was talking about earlier with some of our key strategic pillars. One of those is international. It's been a little bit more challenging, obviously, over the last 24 months, given that we haven't really been able to travel internationally.

That being said, we still had very successful office openings both in Europe, expanding there with our Munich office opening, but also in Japan and Singapore and elsewhere, and those businesses are going very, very well. So we feel like we're in all the right places. Now we just need to accentuate the investments that we've made in those geographies. And I think that's going to start to play out very well. We've hired some amazing leadership to take over those areas as well, international for both Europe and Asia Pacific. And so I'm very optimistic there.

I think that the trends, again, of what we're doing, these are very, very big markets. So it's early days. I mean we're, again, very happy with revenue growth at 65% year-over-year to a $450 million quarter and the incremental fiscal year guidance to $1.8 billion-plus for the year, but these are massive markets that are going to have durable growth for the next 3, 5, 10 years.

And people adopting cloud technology, people putting in place more digital technology for their customers, their partners, their vendors, their suppliers, I mean these are things that people are just getting going on. So I expect that they'll continue to go for some time, and we'll update those specific breakouts from time to time as we go. But we've seen no material change and both sides of the business are doing very well.

Finally, what I would say is we try and be specific in our details around the new customer wins that we highlight in some of the prepared remarks just to give you an idea. So we have a great Fortune 500 insurance company that adopted both the customer Identity Access Management and Workforce at the same time, but we also had Fortune 50 customer Identity and Access Management wins for both Okta and Auth0 separately this quarter, which I think, again, just highlights how powerful having both of those platforms are. And specifically to your original question, how much opportunity there is in customer identity and access management.

Brian Lee Essex ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Yes. That was a great answer. One detail, the 28%, 72% split was just all revenue. It wasn't -- that wasn't SIEM or Workforce, just to be clear.

Brett Tighe ***Okta, Inc. - CFO***

To be clear it's 78%.

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

It's 78%, 22%, though. So it's 78% U.S.; 22% international, yes.

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

All right. Excellent. Next, we'll go to Matt Hedberg at RBC.

Matthew George Hedberg ***RBC Capital Markets, Research Division - Analyst***

Congrats on the results. You guys are having a lot of success outside the traditional bar network. And I know some of those bar checks can be noisy at times. Now when I hear that large Fortune 500 win through AWS, that's super exciting to me. I guess I'm wondering, can you talk about how your business mix might change from, over time, whether it's from bars, partners, GSIs? Just how that composition might look in the future?

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

Yes. Happy to talk about that. As you mentioned, we had a really big win for the quarter with a Fortune 500 insurance company that was sourced through AWS. Just to talk first about AWS. AWS is obviously the biggest cloud infrastructure provider out there. We're very proud to partner with them as a global technology partner. We're their preferred partner for identity, which matters. And it matters because we've been working on this relationship now for, I think, 12 or 18 months, and you're really starting to see it bear fruit.

I mean they have -- we're very happy again with the growth in our business and direct sales reps, but they have over 9,000 reps that are co-selling with Okta today. And this partnership is in the very early stages. And it has the opportunity to really be very meaningful for us. So we're pleased with the early momentum. We've already sourced multiple deals from this avenue, and we'll share more as the relationship matures. But I think overall, the channel is maturing. We're not the same company that we were 2 years ago, and we're going to be a very different company 2 years from now. Look, we're going from $1 billion to $1.8 billion to $4 billion around the corner. And that means that there's a lot of things that we're going to keep the same when it comes to our channel in terms of system process, distribution.

But there's also a lot of things that have to change as we grow and as we expand. I think playing right into that international comment that I made earlier. We're not going to have reps in all those places. And so having the right partners that have the right distribution and the capabilities to make it to do these kinds of implementations, both the sourcing side like AWS but also implementation, look, IBM Global Services renamed Kyndryl, they were a great win from last quarter.

And I think that just shows that even the biggest system integrators in the world are realizing the future is different than it was with on-premise technology, and they want to build their practices around us. So we're very excited. I think it's early days for AWS. It's a good telltale sign, but there's going to be a lot more to talk about in the quarters and years ahead.

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

Okay. Next up, we have Fatima Boolani at Citi.

Fatima Aslam Boolani ***Citigroup Inc., Research Division - Director & Co-Head of Software Research***

Todd, I'll start with you. I think there's a lot of sort of concern in the investor community with respect to enterprise software consumption patterns from the likes of high-tech fintech companies. We've all sort of seen what's happened in the VC community. So I just wanted to get your perspectives on what potential impacts you're seeing or bracing for particularly within the SIEM part of your portfolio and Auth0 specifically because that's a very developer-friendly and developer-oriented solution. And then I have a follow-up for Brett, please.

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

We're very excited about it. We see a ton of potential. We hear a lot of the anecdotes about concerns and macro and slowdown. But the reality is we're not seeing it in the pipeline or in the business. And so we're executing as we have been, which is we think it's a big opportunity, developer, SIEM, building this primary cloud. And we're watching things, of course, but we're -- we think there's a lot of potential, and we're working hard to capture it.

Brett Tighe ***Okta, Inc. - CFO***

I'll also add to that, Fatima, currently, we're not set up as a consumption-based contractual arrangement. It's a pretty standard by a certain number of AMS over a certain time frame. So it's not like some of the other businesses that are out that are more consumption-based.

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

Yes. The only other thing I would add to that is the demand remains strong across both sides of the business because of the 3 macro trends we've talked about. I mean the customer base grew 48% to 15,800 and the base of large customers grew at nearly 60%. And our pipeline grows each year, obviously, as the business grows, our pipeline is currently at record levels, so.

Fatima Aslam Boolani ***Citigroup Inc., Research Division - Director & Co-Head of Software Research***

Fair enough. I appreciate that color. Brett, for you, just on the software backlog and sort of the orientation towards having us think about RPO and cRPO is kind of more of the guiding light for the business and how to think about forward momentum. Can you give us a little bit more flavor of the composition of that backlog type at a higher level between new business, renewal business and expansion business? And the reason I ask is because I wanted to get a better flavor of how I should think about dollar-based net retention moving forward as you've lapped through Auth0. And that's it for me.

Brett Tighe ***Okta, Inc. - CFO***

Yes, there's no difference to have the RPO or current RPO. I would say I'd probably look at current RPO before I look at RPO, because RPO can be influenced by duration and whatnot on contracts. But the current RPO yes, it's pretty similar to what it has been in the past. And from a net retention perspective, you can see it's been strong, 123% above our stated range, which has been what we thought was 115%to 120%. We were above it again for this quarter. So we're very pleased with the outcome for the quarter.

And I think it really just speaks to the strength in our business, especially on the gross retention, you heard that earlier today in the call. I fundamentally believe that you don't get the right to get an upsell until you do a good job on the gross retention side of the house. So if we deliver success on an everyday basis, that gets us the right to get that upsell. And so we've had great gross retention, and it's been ticking up a little bit as we've gone through the pandemic and exiting the pandemic. So we're really pleased with where things are at currently.

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

Okay. I think we got to everybody's questions. That's great. That's it for today's meeting. If you have any follow-up questions after this, you can e-mail ir@investor@okta.com. And otherwise, we'll see you next quarter. Thank you.

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

Thanks, everyone. It's nice to see you all.

Brett Tighe ***Okta, Inc. - CFO***

Thank you, everyone.

Jacques Frederic Kerrest ***Okta, Inc. - Co-Founder, Executive Vice Chairperson & COO***

Thank you.