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PRESENTATION

Operator

Ladies and gentlemen, thank you for joining today to discuss Okta's fourth quarter fiscal 2018 conference call. Today's conference is being recorded. I'd like to turn the call over to Catherine Buan, Vice President of Investor Relations. Ms. Buan, you may begin.

Catherine Buan

Good afternoon. This is Catherine Buan, VP of Investor Relations at Okta, and thank you for joining us on today's conference call to discuss Okta's fiscal fourth quarter and fiscal year 2018 financial results. With me on today's call are Todd McKinnon, Okta's Co-Founder and Chief Executive Officer; Bill Losch, the company's Chief Financial Officer; and Frederic Kerrest, the company's Co-Founder and Chief Operating Officer.

Statements made on this call include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 including, but not limited to, statements regarding our financial outlook 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 forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Forward-looking statements represent our management's beliefs and assumptions only as of the date such statements are made.

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

Thanks, Catherine, and thanks, everyone, for joining us today. This was a record quarter for the company with revenue of $77.8 million, up 59% versus last year, making us 1 of the fastest growing SaaS companies in the public markets. Subscription revenue grew even faster in the quarter, up 64% year-over-year. In addition, quarterly billings were up 67% year-over-year, while free cash flow margins improved 17 percentage points. Our performance over the fiscal year clearly shows that there is both high growth and increasing leverage in our business. But beyond this, it highlights the importance of our #1 core value, and that is love our customers. Our mantra is to focus on our customer success, ensuring that they achieve long-term value from their Okta partnership. And as a result, our total customer count in the quarter grew to over 4,350, representing a net add of 400 new customers, our highest net add ever in a single quarter, and customers continue to invest and grow with us. Our net dollar retention rate was 121% for the past 12 months as of January 31. Furthermore, 691 customers now spend over $100,000 on an annual basis with us, an increase of 56% year-over-year, accelerating from 50% year-over-year growth in the previous quarter.

Here are some examples of key customer wins in the quarter and why they are investing in Okta for their businesses. First, JetBlue, which flies more than 40 million customers a year on an average of 1,000 daily flights, was a new customer win in Q4 in customer identity management. Their targeted customer growth strategy is fueled in part by their award winning TrueBlue loyalty program and their premium service offering, Mint. JetBlue chose the Okta Identity Cloud to support the migration away from legacy technologies, providing a reliable and secured booking and travel experience for millions of customers with our API products, specifically Single Sign-On, Universal Directory, API Access Management and Lifecycle Management.

The second example, we added a top 3 U.S. wireless network as a new extended enterprise customer. The company needed a modern identity solution to support its rapidly changing business model. Legacy solutions were costly, required custom integrations and did not support modern protocols such as OpenID Connect and OAuth. The customer looked to Okta to support its B2B portals and help roll out business-critical applications that support its supply chain. They purchased all 5 of the products in the Okta Identity Cloud to accomplish these goals.

Lastly, an upsell this quarter. Farmers Insurance currently uses Okta Single Sign-On and Adaptive Multi-Factor Authentication to help securely connect its approximately 20,000 employees with on-premise and cloud technologies. This quarter, they expanded their relationship with several of our products for customer identity.

These customer examples further demonstrate our increasing penetration into the enterprise market and our dedication to our customers as we provide solutions across multiple applications and hybrid environments. They are also evidence of the upsell potential we have. Many of our customers may start with 1 or 2 products. Then, as was the case with Farmers this quarter, based on their positive customer experience, expand their relationships with Okta, adding more products and users. We are also continuing to replace legacy solutions and work with hybrid environments to support customers' move to the cloud at any pace.

When I talk to customers, they don't want one vendor dominating their IT spend and dictating the use of just good enough technology. CIOs and CSOs have to use the best products and rarely does one vendor have the best products across CRM, collaboration, file system, devices, networks or infrastructure. Customers need the best technology, and in order to have the best of breed, they need their systems to talk to each other. Through the Okta Integration Network, we provide all of the integrations our customers need to successfully invest in and use the best technologies. So if an organization wants to use Office 365 and Box and Slack, not use Skype and OneDrive, they can do it, and they can have one unified experience thanks to the Okta Identity Cloud.

The other thing I hear consistently from our customers is that they need help connecting to their customers. Every company feels a sense of urgency to become a technology company, and we believe the Okta Identity Cloud is a foundational solution to this problem. This has been our mission from the start. We want to enable any organization to use any technology today and in the future. With all their users, both inside and outside their organization, we remain convinced that identity is the linchpin to securely manage all of an organization's systems as they move toward the cloud, and our results are bearing that out.

With this in mind, I would now like to now turn to some key strategic areas of focus for this fiscal year: security, the customer identity market and the Okta Integration Network. First, we believe we can increase our share of spend in security. The threat landscape has shifted to focus increasingly on phishing and social engineering-based attacks on credentials. In fact, it has been reported that 81% of breaches involve stolen or weak credentials. The Okta Identity Cloud is strategically positioned in the security stack to help prevent compromised accounts and make it much more difficult for attackers to gain access to critical enterprise data. Our unique visibility into billions of authentication events across millions of active users and their devices will continue to represent a significant competitive edge and will help our customers stay ahead of today's sophisticated attackers. Modern identity solutions like Okta have redefined the security landscape.

Second, we want to win the customer identity market. The customer identity market is in its infancy, but its importance cannot be overstated as every company has to become a technology company and find better ways to interact with their customers before their competition does. We already have significant traction with referenceable accounts doing big deployments to securely enhance their customer-facing applications. With our scale and enterprise identity, we bring the leading identity technology to an organization's customer experience.

As more and more companies are engaging their customers with streamlined digital experiences, Okta helps organizations keep their customers happy while keeping their system secure. The Okta Identity Cloud helps protect customer information by securing personal information and hardening access control, and it helps their businesses by helping them understand their own customers better.

Third, we will continue to leverage and expand the Okta Integration Network. We believe this is our most important competitive moat. When I talk to customers, they tell me that they need to use the best technologies to run their business. Okta allows them to do so through a single platform. We now have over 5,500 prebuilt integrations with applications and infrastructure providers. We partner with thousands of technology vendors and with all the major platforms. In a best-of-breed world, we make sure that your system stays integrated. You can choose any vendor, and you can connect to any relevant technology. Our platform enables an integration model by one customer or partner to be leveraged immediately by all of our customers, leading to a powerful network effect. We will be announcing more about these focus areas at Oktane coming up this May 22 through 24 in Las Vegas. We're also thrilled to have President Barack Obama keynoting. Stay tuned for all the news.

As we look ahead, we're excited by our potential. We have over 4,350 customers, but thousands more need the Okta Identity Cloud. Our existing customers can greatly benefit from further adoption of our broad product portfolio. And finally, we're very early in our success in the Global 2000.

We're hard at work, making sure we capitalize on the opportunity in front of us. And before I hand it back over to Bill, I want to thank our investors, our customers, our partners and our people here at Okta. A quarter like this one and our success over the years are both because of you.

And now I'd like to turn the call over to Bill to walk through the 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 fourth quarter and fiscal year before getting into our outlook. We had a very strong fourth quarter, which marked the end of a successful year for Okta. Revenue for the fourth quarter totaled $77.8 million, growing 59% year-over-year. Subscription revenue totaled $72 million in the fourth quarter, an increase of 64% year-over-year and comprised 93% of our total revenue, up from 90% in Q4 last year. Professional service revenue was $5.7 million, an increase of 19% over the same period last year.

In terms of geographic breakdown, approximately 85% of our fourth quarter revenue came from the U.S. and 15% came from outside the U.S. compared to 86% and 14%, respectively, in Q4 last year. Our international business continues to grow nicely, while we remain in the early stages of capitalizing on our international opportunity. International revenue growth continues to outpace overall revenue growth, and for fiscal year 2018, international revenue grew 85% year-over-year.

Moving on to billings. We had another very strong quarter for billings and achieved calculated billings of $104.8 million in the quarter, an increase of 67% over Q4 last year. Strength in billings continues to be driven by momentum with both new and existing customers across enterprise and commercial segments as well as an increase in deal sizes. Also, as we mentioned in the release of our preliminary results on February 21, the growth we saw in billings was partially a result of a few customers with multi-year upfront billings. We also look at current billings, which we believe more closely represent the momentum in our business. Current billings grew 60% year-over-year in the fourth quarter.

Our consistently strong billings growth has been driven by balanced momentum, both within our customer base and with new customer additions. As Todd discussed, we saw our largest quarterly addition of customers with ARR greater than $100,000 in the quarter, representing growth of 56% year-over-year. Similar to last quarter, the majority of these customers were new customers, demonstrating the ongoing success we're having with the enterprise market. The addition of over 400 net new customers in the quarter was also the largest number of quarterly additions we've ever seen. We ended the fourth quarter with over 4,350 customers, up 40% over the fourth quarter last year. Not only did we see strength in our enterprise segment, but we also saw strength in the commercial space.

Our strong dollar-based net retention rate, which has historically been over 120%, came in at 121% for the trailing 12 months ended January 31. This demonstrates the ongoing success we are having expanding within our existing customer base.

Before turning to expense items and profitability, I would like to point out that I will be discussing non-GAAP results going forward. Our GAAP financial results, along with the 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 81.1%, up 169 basis points versus the fourth quarter last year. Our professional services gross margin was negative 13.0% compared to negative 16.6% in the fourth quarter last year. Total gross margin continues to trend higher and reached a new high of 74.1% in the fourth quarter, up over 400 basis points year-over-year. Gross profit was $57.7 million, up 69% year-over-year. Our gross margin has been steadily increasing as we have experienced improving operational leverage.

Turning now to operating expenses. We remain focused on balancing our investments for growth while improving leverage, and our performance has proven that our model works. We have continued to demonstrate consistent year-over-year margin improvement, and non-GAAP operating margin in the fourth quarter improved 12 points over last year. We will continue to see quarterly fluctuations on our operating margin as we grow our business, but we continue to expect that our operating margins will improve annually as our subscription revenue grows at a faster rate than our total operating expenses. We also expect to see a benefit to operating margins as a result of our adoption of ASC 606 which I'll discuss in more detail in a few minutes.

Sales and marketing expense for Q4 was $42.6 million compared to $29.8 million in Q4 last year. This represents 55% of total revenue, an improvement compared to 61% in the fourth quarter last year. We are pleased with the operational efficiencies we are beginning to see in sales and marketing as we scale the business, but we remain focused on investing in our go-to-market strategies to capitalize on our substantial market opportunity.

R&D expense in Q4 was $14.2 million compared to $9.7 million in Q4 last year. This equates to 18% of revenue, down slightly from the 20% we saw in Q4 last year. We continue to invest in R&D as we enhance and evolve our products.

G&A expense was $11.6 million for the fourth quarter compared to $7.3 million in the fourth quarter last year. G&A was 15% of revenue, consistent with what we saw in Q4 last year. G&A expenses continue to grow at a moderate pace on an absolute basis as we have added personnel and systems to support our growth and the infrastructure required as a public company.

Our operating loss in the quarter was $10.8 million compared to a loss of $12.7 million last year. Operating margin was negative 14% compared to negative 26% in the same period last year.

Net loss per share in Q4 was $0.10 with 101 million basic shares outstanding. This compares to a net loss per share in Q4 last year of $0.66 with 19.6 million basic shares outstanding at that time.

Operating cash flow was positive $155,000 in the fourth quarter compared to a negative $6.7 million in Q4 last year. Free cash flow was negative $2.2 million in the quarter compared to a negative $9.8 million in the fourth quarter last year. Free cash flow margin was negative 2.8%, a 17 point improvement, compared to negative 20.1% for Q4 last year. Our free cash flow in the quarter benefited from strong bookings and strong collections. While we are pleased with our ongoing improvement in free cash flow margin, we expect to see variability in free cash flow margin in the coming quarters due to increased CapEx associated with our office expansion along with ongoing fluctuations in working capital.

Turning to the balance sheet. We ended the fourth quarter with $229.7 million in cash, cash equivalents and short-term investments. Following year-end, we added approximately $300 million in cash to our balance sheet in the first fiscal quarter, resulting from the convertible senior note offering that we closed in February. This capital raise provided us with additional financial flexibility to help scale our business and respond quickly to any potential strategic opportunities.

Lastly, our total headcount was 1,176 as of January 31, 2018, growing 31% over January 31, 2017. We continue to add headcount across the board as we support the growth of our business.

Quickly touching on the financial highlights for the full fiscal year. Revenue totaled $260 million, an increase of 62% over the full fiscal year 2017. Subscription revenue totaled $239.2 million, growing 67% year-over-year. Calculated billings totaled $314.9 million, an increase of 62% year-over-year. Current billings, which, as I mentioned earlier, more closely represent the momentum in our business, increased 57% year-over-year. Gross margin was 71.9%, up from 67.3% in fiscal 2017. Operating loss was $65.7 million or 25% of revenue compared to $65.8 million or 41% of revenue last year. And finally, free cash flow was negative $37.2 million or 14.3% of revenue, improving meaningfully from a negative $53.8 million in fiscal 2017 or 33.6% of revenue.

Before I get into our outlook, I'll discuss the adjustments we expect to see going forward resulting from the adoption of the ASC 606 revenue recognition standard which occurred on February 1, 2018. We adopted the new accounting standard using a full retrospective method, and our adjusted financial results for fiscal 2017 and 2018 are summarized in materials posted on our Investor Relations website.

The new accounting standard has minimal impact on our business overall. Under 606, we expect the adjustment to our revenue in fiscal year 2019 will be a headwind of approximately $3 million to $4 million, and we expect this will lower our sales and marketing expenses, which, net of the headwind and revenue, will lead to an improvement in non-GAAP operating loss of approximately $5 million to $7 million for the full year, and of course, there is no impact to our free cash flow.

Note that the guidance I'm about to provide includes the adjustments under ASC 606 that I just described, and the corresponding growth rates I'm about to provide compare our guidance to our adjusted historical financials under 606. For the first quarter fiscal 2019, we expect revenue in the range of $78 million to $79 million, representing a growth rate of 49% to 50% year-over-year; non-GAAP operating loss in a range of $17.1 million to $16.1 million; non-GAAP net loss per share in the range of $0.16 to $0.15, assuming 103 million weighted shares outstanding. For the full year fiscal 2019, we expect revenue in the range of $343 million to $348 million, representing a growth rate of 33% to 35% year-over-year; non-GAAP operating loss in the range of $72 million to $67 million; non-GAAP net loss per share in the range of $0.67 to $0.62, assuming 106 million weighted shares outstanding.

I'd also like to give you some color on our CapEx expectations for fiscal 2019, given the investments in our new San Francisco headquarters. As we mentioned on our call last quarter, there will be operating expenses associated with the move which have been incorporated into our guidance for fiscal 2019. We also would remind you that we expect to see $15 million in capital expenditures over the course of the fiscal year, resulting from the build-out of the new space.

In summary, we had a great quarter. We are pleased to have closed out our first fiscal year as a public company on a high note. We look forward to building on our momentum in the quarters ahead.

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*

Todd, first question just -- first question just, Todd, relates to the Businesses @ Work is a great report and you have the event around that. And it was just great to see all the different traction. And obviously, you guys are doing extremely well just helping businesses, whether it's commercial or enterprise businesses, deal with cloud proliferation and really making it easier for knowledge workers use these apps in a secure way. But what about other areas such as like Agile development, DevOps or getting into things that are more infrastructure and privileged identity? Where are you in that opportunity? And how interesting of an opportunity is that for you?

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

Yes. One of the cool things about the Identity Cloud and this, really, this new type of platform we've defined all around identity is that there's a lot of interesting areas around it. So yes, you mentioned a couple of them, DevOps and things like that. But we're really focused on the big main areas that I talked about. One is, as you mentioned, the core employee identity, and then two is really customer identity. If you think about every company thinking about how they can be more of a technology company, build better customer websites, customer mobile apps and identity and connecting to those customers securely is a big part of that. So that's a very exciting area for us. And then we mentioned that the third big priority for us is really continuing to expand the Okta Integration Network. So yes, we're -- we have a lot of momentum, but we also have a lot of work to do on these big broad markets. And -- but we're also opportunistic about other adjacencies as they come up.

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

Okay, great. And then just a follow-up is on customer identity, which is a big focus. Maybe an update in terms of being able to engage with and interact with developers because they can be important in these design wins that lead to developed apps. And just what have you all -- what kind of learnings have you all had in the early quarters of being out there trying to sell customer identity and just how they go-to-market, motion [with bearings] versus just selling your traditional products?

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

Yes, sure. Customer identity is very robust and very strong. A couple of the examples I used, I mentioned in my prepared comments about JetBlue was a great customer identity win for us last quarter. That was a new customer, and then an the upsell at Farmers Insurance, which was the upsell was really about customer identity as well. So that part of the business is robust, and the potential there is really -- the growth there -- the growth potential there and the momentum there are big. The -- as you mentioned, it does have a new -- because we've talked about this on previous calls, it does have a new constituency in there, and that's the engineers and the developers building these solutions at our customers. So different from employee identity, those UIs and those applications are usually prebuilt or SaaS vendors or packaged applications, where customer identity is -- involve the engineering team or product team building things. And we've made tons of stride in the last year about -- with our developer-facing offering and reaching out to the developer community and the product and technology that's API-enabled and has the best, most modern software development kits for all the languages. And so we're -- yes, we're super excited about our progress there, and it's driving some of that success in the customer identity market.

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

And this is Frederic. Just to add to that, I think since we integrated the Stormpath team into our company about a year ago, we've seen great traction and uptake in everything from our libraries to the documentation, and I think that's best represented by -- we just hosted a couple of weeks ago our first developer conference called Iterate here in San Francisco. We had some great partners from some of the other leading developer-focused software companies that are out there. It was a great first start. I expect we'll do a lot more of that, and those are just some good tangible examples of how we're moving forward there.

Operator

And 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. Given the momentum we've seen with record customer additions in this quarter as well as 2 consecutive quarters of record additions to that large deal cohort, can you comment on the relative contribution of customer additions, large deal equipments, and expansion activity in explaining the quarter's upside?

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

Yes. We're happy to try to give color on that. I think that the numbers we've talked about, the customer count and the customers paying us over $100,000 ARR, that's kind of what drove the upside, and that's kind of consistent with what we disclosed before. Those metrics describe more new customers, more customers doing bigger deals. And if you look at our strategic focus going forward, these things, customer identity, especially security and this -- the neutrality and the heterogeneity represented by the Okta Integration Network, these things apply to customers of all size, but they, I think, apply even more and they're more relevant to the larger customers, which is why that's a big part of our focus going forward. So that's really how I would characterize the upside there.

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

Yes. Mike, this -- so this is Frederic. I'd just add to that, as you actually mentioned in your question, it's not the first time that we're seeing kind of that increased growth and acceleration. It's an ongoing trend. And I think taking a step back, it's just the -- a sign of this early but very powerful shift that you're seeing in the enterprise of more and more companies adopting enterprise cloud solutions and the opportunity that we can help them with that adoption.

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

And then as you guys look at scaling the sales organization, at least in the context of the momentum we've seen, can you speak to the internal metrics you're targeting or potential rep productivity floors you may set in planning for incremental hires, whether that's heading into the year or throughout the year?

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

Yes. The way -- we look at that basically and we've managed this for several years now is that we want to grow as fast as possible, but we also want to want to -- want our sales and marketing cost to be paid back. And that's the floor we look at, right, so that payback of sales and marketing investment over time. So it's like grow as fast as you can but make sure that you're not doing it a point where your sales and marketing cost and investment is becoming inefficient. So we're -- that's kind of how we manage the business, and that's been consistent for the last 4 years, how we've done that.

Operator

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

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

Wanted to ask, Todd, you laid out the priorities for 2018. How do we translate or interpret that into what that means for possible new product introductions this year to accomplish those goals?

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

I think that -- well, I can't give everything away because we have Oktane coming up, but I would say, broadly speaking, that the areas I outlined are strategic focus areas, so security, customer identity and the Okta Integration Network. You'll notice that those aren't products, right? Our specific products are things like Single Sign-On, Universal Directory, Lifecycle Management, API Access Management. So those focus areas really -- those can be -- we can do a lot in those focus areas with our current products, and we can also broaden our product portfolio within those focus areas. So we're kind of working hard on both dimensions, and we'll have some updates at Oktane. And we're excited about the next year and the years after that.

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

Sounds good. And one follow-on. As you look at the strength in the quarter to those product areas, how would you kind of at least rank order qualitatively, where you were seeing the biggest pull-through in terms of the choices of customers?

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

I would -- I think that we -- in terms of like product mix or customer identity or employee identity, the -- as I mentioned to -- in response to the previous -- or couple of questions ago, there wasn't anything that was really different materially from previous quarters. It was just bigger companies are buying bigger subscriptions from Okta. The evidence there is that -- the number of customers now paying us over $100,000. Customer identity continues to be strong. We gave some really good examples of customer identity wins this quarter: JetBlue, which is a new customer; and also Farmers, which is an upsell. And then we're also adding new customers. So in terms of like hitting on all cylinders, the growth and momentum is powerful.

Operator

And we'll take our next question from Alex Henderson with Needham.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

I've got a couple questions for you if I could. The first one is I was wondering if you could talk a little bit about the competitive landscape, some of the companies like Centrify or Duo or people like that, that are trying to hone in on your category. Clearly, you guys are outperforming all of them, but any sense of price pressure or alternate price points would be helpful to talk about. And the second question -- I was just over at the CyberArk conference, and they highlighted that you guys, in the context of your partnerships and how that can help them get some business, they also mentioned that they had reciprocated the other direction. So the question is relative to your partnership structure, how much of your lead book is a function of you going in, in partnership with other companies that are pulled in on a project and then see that they need a portion of what you're offering and bring you in. How big of a piece is that?

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

Thanks, Alex. Greatly appreciate it. This is Frederic. I'm happy to talk a little bit about that. I'll take your questions in order. So the first one on the competitive side, I think as we've outlined earlier in our prepared remarks and certainly in the -- as a follow-on to previous quarters, the market opportunities that we're going after are very large market opportunities, right? So when you think about managing and securing the extended enterprise and then you think about customer identity and access management, there's tens of billions of dollars being spent in these spaces every year. So obviously, when you have these very large market opportunities, there is going to be competition. You mentioned some of them. There's also some of the platform players that are traditionally trying to bundle some of their applications together. So I think that the reason that we're seeing a lot of success and we're very fortunate in the business are a couple of the key characteristics of the Okta Identity Cloud, specifically and in particular, independence, I think, is very important. As we talked about, a lot of these large enterprises that are deploying applications, they're doing it in a best-of-breed world, so they're picking the best collaboration apps, the best enterprise mobility apps, whatever the case may be. And we -- obviously, our mission is to enable any organization to use any technology, right? So when you do that, we're not beholden to any product suite, and we can really play that role of swizzling across operating systems, across networks, across devices, across applications. And I think that really has played to our advantage. Specifically when it comes to competition, we have not seen any change in competitive rates. Obviously, we're paranoid folks, right? We're also always watching the survey carefully. But we continue to be very fortunate and have a lot of success in the market, and nothing's really changed on that front. I think it plays also into your second question around CyberArk, and more broadly, it's a good example of the Okta Integration Network, right? When you think about the business we're in, which is helping all these organizations take advantage of modern technologies, right, take advantage of the existing infrastructure and legacy investments they've made but also these modern technologies they want to deploy, we have to have the best and the broadest integrations to all the applications, all the network devices, all the mobility providers, all the operating systems out there, which is why we have north of 5,500 pre-integrated applications and integrations into the Okta Integration Network today. A very good example of that is CyberArk. We do have a good partnership with them. I think it's a good example of what Todd was talking about. There's a lot of opportunity just with the existing product set we have to go deeper and broader, and we're always going to look at other opportunities to grow organically and build new products and help our customers with new problem sets. But at the same time, we know that we can't build everything out there, and our customers have existing investments in things like CyberArk. So we have a very good partnership with them, a very reliable integration, something that's, I think, serving our joint customers very well in the market. And I think it's a good example of us making sure that we're working with all the best-of-breed technologies out there to make our customers successful.

Alexander Henderson - *Needham & Company, LLC, Research Division - Senior Analyst*

Could you throw any numbers around the degree to which that's additive in any given period? And if I can follow up with one additional point. SD-WAN and digital transformations are obviously driving a lot of decision-making. How -- is there any quantification of how often that's a driver of pulling you into a transaction as a facilitating technology footprint?

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

Yes. Sure, absolutely. So I don't have any specific numbers on what the CyberArk partnership or other partnerships bring us into. In general, as we've talked about before, we have a largely direct go-to-market sales motion today. We do work closely with both technology and distribution partners, the global system integrators. You might have seen KPMG just announce today that they're building a practice around our -- cyber practice around Okta, which is great. And you're going to continue to see that as we expand and particularly internationally. But I don't have any specific numbers to give you there. On the latter point, yes, digital transformation always makes me laugh. It might be the most common or overused term these days and kind of seems to mean everything to everyone. Certainly, when you break it down, look, every company has to become more modern when it comes to their existing enterprise infrastructure. You have to provide a better user experience to their employees. They have to make the technology more secure. They have to reduce costs. Those are things that continue to happen. And then on the customer-facing side, every company has to become a technology company to some degree, right? Every company has to improve their customer interactions, their partner and vendor experiences because if they don't, their competitors are going to do that. And so certainly, I mean, those are very broad trends that, I think, again, I personally believe are pretty early in the market. But yes, I mean, the -- we're certainly tied into a lot of innovation and a lot of projects that have those terms somewhere baked in there.

Operator

(Operator Instructions) 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*

There's something I'd like to start out with, your international business, and just give a sense of how you think about the maturity of some of the markets outside of the U.S. And potentially, how do you expand into those markets or drive faster adoption?

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

Yes, absolutely. Thanks, Jonathan. This is Frederic again. I think it's early days for our international expansion, but I think the opportunity for growth there obviously is tremendous. If you look at the business opportunity in North America, no surprise, right? Company that was started in North America, there's a lot of existing opportunity here, and we just have to start -- continuing to penetrate that across all segments. But the international opportunity is a big growth opportunity for us. It's one that we're making very good strides in, in my opinion. This last quarter, overall, was the strongest quarter that the EMEA business, in particular, has ever had with some great new customers joining us in Europe and in segments that are newer to Europe for us. For example, financial services, great new financial services customer that joined us in Europe, and you're going to start to continue -- you're going to continue to see that. I think we hired a new GM of Europe. He's been on board about 6 months. I think he's doing a great job of getting his feet under him, and I expect to see that continue to progress as we go. I think just trailing on the last question, one of the ways we're going to continue to do that distribution is not just direct but more and more partners internationally in Europe and particularly Asia Pacific, and those are things that you should expect to hear from us in the quarters and years ahead.

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

Got it. And then just as a quick follow-up. I think you guys added 2-factor authentication as 1 of the base standards in terms of your core product. Can you talk a little bit about the dynamics there and whether there's been any shift in terms of the adoption of multifactor? Has this accelerated things? I just wanted to understand maybe the dynamics around that and potentially the win rates as well.

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

The adopt -- so we did. We added basic multi-factor authentication to our standard Single Sign-On product, and the adoption of that has been fantastic. And I think that product, Single Sign-On, it's the best product in the market by far. It's -- the momentum there continues. But also at the same time, our Adaptive Multi-Factor Authentication continues to do very, very well. And so the basic components of multifactor in the Single Sign-On product means -- the objective there was more companies having better security by default, and that's been accomplished there. And then at the same time, we're driving upsells into our Adaptive Multi-Factor Authentication product, which is -- has all of the advanced factors like you can use your phone and do push technology. You can have advanced policies around when the second factor for a certain resource is prompted, et cetera, et cetera. So we've seem to have hit the mark there in terms of the momentum and the growth with both the basic product, Single Sign-On, and really, "the upsell product," which is Adaptive Multi-Factor Authentication.

Operator

And we'll take our next question from Gray Powell with Deutsche Bank.

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

Just a couple of quick questions. Is there a way to roughly quantify the mix of your growth that's coming from the support of on-premise applications versus cloud apps? And then what stage or what inning do you think we're at with the opportunity to displace legacy on-prem solutions?

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

It's a really good question. I don't have the number in terms of like -- I don't have a number about what growth is being driven from on-prem apps versus cloud apps. I think that I'll just say that this company was started on a belief that the center of gravity of IT was going to shift to the cloud. But also, we're pretty pragmatic. We don't -- we think that there'll always be on-premise to some degree. So we've built a platform that is a cloud-based platform, but it can connect -- it's very powerful and can connect on-premise and cloud. And I think one of the big picture factors that's driving our success is that the shift to the cloud is happening, right? And it's accelerating, and that's why more people are choosing us and more people -- more of their workloads are in the cloud and on and on and on. In terms of the -- what inning are we in? We joke about it. Like, we say we're -- it's in the early innings. Like, we think it's definitely like the first or second inning, but it's one of those games where it's like 11 to 9 and both the starting pitchers have been knocked out and it's been going on for a while. So it's going to be a long day at the ballpark but fun day, a fun day.

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

Gray, I would -- this is Frederic. I would just add to that, that when it comes to legacy identity providers, some of the traditional on-premise incumbents that you would expect, I would just add a couple things. First of all, it's a gradual process, right, meaning that you're going to see this existing IT infrastructure. They don't throw anything away. What they do is they buy new technology. They try to integrate them. That works very well for us. We work very well in this hybrid environment. And typically, we'll go into a customer. They'll have a specific problem that they're trying to solve. They might have Oracle or IBM running on-premise. They have a specific problem or initiative they're trying to solve. They're trying to roll out Office 365 or roll out Workday through a wide deployment. We integrate with Oracle and IBM, get them up and running quickly. We get that deployment rolled out to all their employees, and within a quarter or 2 quarters, we come back to the CIO and talk to him or her and we say, how was that experience? They say, that was great. And then we've earned the right to say, great. Now let's talk about your existing Oracle or IBM on-premise infrastructure, and here's the road map over the next 12 or 24 months for us to turn the lights off on that infrastructure. So this is not a forklift upgrade program. This is not a big bang program. And frankly, I think that's why you continue to see the very strong net dollar retention rates that we have and the continued expansion in the enterprise.

Operator

And we'll take our next question from Richard Davis with Canaccord.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD & Analyst*

So I guess, 2 quick questions. So one of the things that's important to developers is strong support of open source systems. Could you kind of talk about, I think it's your Okta developer experience team, but how they think about and work with that part of the ecosystem in terms of SDKs, working with Android, Java, Angular, et cetera, and stuff like that?

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

Yes. It's a big part. I mean, if you're building something -- a lot of developers are choosing open source tools and languages and platforms, and we want to be on all of them. And you've seen the announcements over last 6 months or so broadening our reach into more and more of those environments, those platforms. And think of that -- think of the developer experiences like mapping the core APIs of the Okta Identity Cloud to those specific languages, right, because every developer wants the native support for what they're doing in their language. And that's -- we're busy doing that. You can expect to see more of that over the months and years ahead.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD & Analyst*

And then just a quick follow-up. You guys didn't get hit with the -- I guess, it was that SAML authentication bypass vulnerability. Is there -- do you have like a workflow? Or what allows you to dodge those bullets? Because those are bad dudes out there trying to mess things up.

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

Yes. I mean, the -- there's a couple things that are really important. One is that security -- bugs around security and vulnerabilities in security and problems, it's inevitable, right? You see what's happened with things like the chips with Meltdown and Spectre. You've seen -- over the years, you've seen different vulnerabilities and different compromises. I think our big advantage is that similar to how we can effectively scale to thousands of integrations and maintain an enhanced Okta integration at high velocity is that we can do it centrally, right? We can manage and we can maintain the system centrally, and those benefits accrue to all of our customers. And it's true for -- like new features we release, we release them once and there's no upgrade required. And it's also true if we have to fix security vulnerabilities, right? We fix them once centrally, and they're immediately patched everywhere. And it's a huge advantage to the cloud model. It's a huge advantage to how we've architected our service. And then that's regardless of the specifics of any one issue. It's just kind of an architectural superiority of what we're doing, and it's kind of -- it's playing out well for us.

Operator

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

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

Yes. I just had a question. Most of these have been asked already but just one that I still had. You guys talked about, on your roadshow, ACV per large customer. And I know you cited you had 691 customers now that spend over $100,000, and you talked about the growth rate. But can you talk about how the ACV, they've been spending, those customers over $100,000, has been trending over the course of the past year?

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

Yes, Heather. So the trend has been very positive from the standpoint that whatever metric you look at externally if you look at those customers but frankly, more importantly, how we look internally. The annual contract value from those customers has been increasing and been increasing on a sequential basis each quarter.

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

Okay. And no -- on the roadshow, you guys also talked about the cohorts, the different cohorts. Do you guys have any updated stats in terms of the cohort numbers that you were discussing back then?

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

Yes. I mean, I think, the -- for those particular cohorts we were talking about on the roadshow and have talked about subsequently, the combination of the strong net retention rates that we've been posting in addition to the fact that our gross margin, subscription gross margin, especially, has been growing, those cohorts continue to generate more and more profitability for us. So we feel really good about how that's been working for us to this point.

Operator

And we have one more question. We'll take our last question from Rob Owens with KeyBanc Capital Markets.

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

I think they maybe already asked one. It wasn't Rob. It was...

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

Sorry, about that. It was the mute button. Mike Casado here for Rob Owens. Just one last one from -- just one more from me, sort of related to Heather's question. Recognizing that you guys posted a very healthy retention rate, I still wanted to ask if you've seen any changes in the up and cross-sell cadence just given the strength you've seen in initial commitments.

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

Yes. I mean, I think that we've seen -- we continue to see very strong upsell and cross-sell expansion in the business. We have -- as you point, with the initial commitments the customers are making, we have seen those increase also. But across-the-board, we've seen good traction and good positive expansion on both upsell and cross-sell. And I think one important thing to also mention is that, in this past quarter, not only did we have a very strong net retention rate, but our gross retention rate actually ticked up a bit, too.

Operator

And that does conclude our question-and-answer session for today. I'd like to turn the conference back over to Todd for any additional or closing comments.

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

I'd like to thank -- just thank everyone for the support and attention, and we love talking about the story and the business. And we also are very, very focused on the future and we're working on building a very important, long-term, large, successful technology company. And while we've had some success, we do believe that we've only just begun on this journey, and we look forward to the next quarters and years as we -- as the story continues to play out and we continue to follow up on that success. Thank you very much.

Operator

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