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PRESENTATION

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

Hi, everybody. Welcome to Okta's Fourth Quarter and Fiscal Year 2022 Earnings Webcast. I'm Dave Gennarelli, 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 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-Q.

In addition, during today's meeting, 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. The 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. Also note that the acquisition of Auth0 closed on May 3, 2021. And unless otherwise specified, each reference to Okta refers to the combined company inclusive of Auth0.

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. We closed out another fantastic fiscal year with strong Q4 results. Our consistent execution was fueled by our market-leading products for both workforce and customer identity, coupled with our

relentless focus on customer success. We experienced strength in both core Okta and Auth0, which reflects Okta's position as the leading cloud-native, identity management platform addressing the \$80 billion identity market opportunity at scale. The 3 megatrends that are driving Okta's business, the deployment of cloud and hybrid IT, digital transformation projects and the adoption of Zero Trust security in an environment of increasing incidence in breaches, are only gaining momentum. And Okta is best positioned to capture the market that is moving toward us.

And nowhere was the momentum more evident than in our results. I'll start with a quick recap of our Q4 financial results and then get into some of our other notable highlights from the quarter. In Q4, RPO grew 50% and current RPO grew 60%. Total revenue grew 63%, and subscription revenue grew 64%. Okta stand-alone total revenue grew 39%, and Auth0 revenue was \$56 million.

We're reaching more customers than ever before. We added over 1,000 new customers in Q4, which was a record. Our total customer base now stands at 15,000 and grew an impressive 50%. We continue to do very well with large enterprise customers. In Q4, we added a record 275 customers with \$100,000-plus annual contract value or ACV. These new \$100,000-plus ACV customers continue to be balanced between new customers and upsells. Our total base of \$100,000-plus ACV customers now stands at over 3,100 and grew nearly 60% in Q4.

We also continue to have strong momentum with even larger contracts. We had record new adds of customers with both \$500,000-plus and \$1 million-plus in ACV. We now have nearly 600 customers with an ACV of \$500,000-plus and nearly 200 customers with an ACV of \$1 million-plus. Both of these groups grew approximately 60%. Our momentum in these large customer wins is a good proxy for our business with large enterprise and government organizations. It's clear that the focus and energy we've put into better serving these largest customers is driving results.

Here are just a few notable examples of large enterprise wins in Q4, which come from a wide range of industries. Fifth Third Bank, a Fortune 500 financial services company, was a fantastic new business win for Okta because it included both Okta Workforce and Auth0 CIAM solutions. As Fifth Third Bank continues on its digital transformation journey, implementing a cloud-first identity solution to support its workforce and its digital banking platforms is critical to their success.

Kyndryl, the world's largest IT infrastructure provider, was a great new customer win for both Okta Workforce and CIAM this quarter. Kyndryl has approximately 90,000 employees and was formed from the separation of IBM's managed infrastructure services business and is a great example of how Okta can help customers as they navigate the complexities of mergers, acquisitions and divestitures.

A great upsell in the quarter was with Block, the parent company of Square and Cash App. Block had been using Okta for its workforce when the company needed an identity solution that would support its M&A activity, integrate with its systems and preserve its brands. This quarter, the company expanded its investment with Okta as it integrates its recent acquisition of Afterpay. With this expansion, Okta will continue to support Block's M&A agility, allowing the company to seamlessly integrate thousands of employees, who'll have access to internal applications while also preserving the company's branding across its numerous businesses.

And similar to last quarter, we continue to see early success in cross-selling between Okta and Auth0 customers. A great example in Q4 was Carvana, a Fortune 500 e-commerce platform for buying and selling used cars. Carvana has been a long-time Okta Workforce customer and recognizes the critical role technology plays in providing an exceptional car-buying experience and sought to modernize access for all users. Building on this initial success, Carvana recently expanded the partnership and selected Auth0 to provide its partners and dealerships access to its marketplace platform, which provides Carvana customers with a broader selection of vehicles.

I mentioned that we experienced strength in both core Okta and Auth0. So now let's take a look at the split between customer identity and workforce identity in terms of ACV. For this particular metric, the growth rate is inclusive of Auth0 in both comparison periods. Total CIAM ACV grew nearly 60% and now represents 37% of total ACV. Within this, Okta's stand-alone CIAM ACV grew 47%, and Auth0's ACV grew 81%. Workforce ACV grew 37% and represented 63% of total ACV. That's fantastic growth across the board. We're still less than 1 year into the combination with Auth0. And to date, we've been able to accomplish job #1, which was to maintain the momentum of both businesses.

We're even more excited about the future because starting just last month, the go-to-market organization has been unified under Susan St. Ledger's leadership: one team driven by the relentless pursuit of making our customers successful, one team selling both Okta and Auth0, one team providing customers with market-leading solutions to meet their unique use cases.

This all crystallized with an incredibly energetic annual sales kickoff meeting that we held in person a couple of weeks ago. There is nothing else in the market today that even comes close to Okta's capabilities, and the combination with Eugenio and the team at Auth0 is helping us realize our vision of identity as a primary cloud, deliver best-in-class experiences for our customers and win the CIAM market faster.

Now let's talk about product updates. Customers are seeking a cloud-first approach to their identity governance needs. Last quarter, I mentioned the beta for our new identity governance offering. The feedback has been amazing. Diya Jolly, our Chief Product Officer, and her team have spent the past couple of months prioritizing enhancements to the product. This month, we are excited to initiate early access to a limited number of customers as we fortify our go-to-market team and partners with content for enablement. We expect Okta Identity Governance to launch in North America by midyear and globally by year-end.

Okta Identity Governance is a natural priority to bring to market at scale as the use cases of modern identity governance align well with Okta's sales strengths with existing products, like Workflows and Lifecycle Management. The opportunity for Okta Privileged Access are significant as well. We're making great progress developing new PAM functionality, and we will have more news on these developments over the course of this year.

We'll talk more about both products at our Oktane22 event. After 2 years of hosting Oktane virtually, this year, we're excited to host Oktane in person in San Francisco. To do so, we've moved out the date of the conference to the second week of November, so be sure to mark your calendars. Oktane is always a fantastic event to connect with customers and partners and share our vision for identity. It's also a great event to hear from our customers as to why they turn to Okta.

Time and time again, you'll hear customers highlight Okta's independence and neutrality. Okta provides our customers the freedom to deploy best-of-breed applications and does so with deep integrations that other monolithic platforms can't provide or don't want to provide because of their competing products.

Today, identity has become a strategic component of any organization's infrastructure. In a world where cloud adoption continues to proliferate, we believe that in a few years from now, there will be just a few primary clouds that really matter inside an organization. Together with Auth0, we are establishing Okta as a primary cloud and the standard for digital identity. We're doing this by adding more users, more customers and increasing the use cases we can address, all of which accelerate network effects. 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.

In summary, the Okta and Auth0 teams accomplished a tremendous amount in FY '22. There are so many highlights to the year. For example, we surpassed the \$1 billion revenue mark. We added over 5,000 customers. We now have nearly 30% of the Global 2000 as customers. We expanded our portfolio of products, including Okta Identity Engine, our next-generation identity platform, which is now generally available.

Both Okta and Auth0 were recognized as leaders in Gartner's Magic Quadrant. We continue to attract and retain incredible talent, growing our employee base by nearly 80% to just over 5,000. And we made tremendous progress on the ESG front, including our achievement of 100% renewable electricity for our global offices and remote workforce and submitting to the Carbon Disclosure Project for the first time.

With each passing quarter, Okta is further strengthening its market leadership position. We've come quite a long way since Freddy and I founded the company 13 years ago. We're proud of the great progress we've made as a team. But as we look ahead, we know we are just scratching the surface of the \$80 billion total identity market opportunity. I want to thank our employees, our customers and our partners who place their trust in us every day.

Before we get to the financial review, I want to congratulate Brett Tighe on his appointment as our CFO. Brett has been an incredible asset to Okta since he joined 7 years ago. He's one of the primary architects of our long-term financial model and has really excelled in both the internal- and external-facing responsibilities since stepping into the role.

Now here's Brett to walk you through more of our Q4 financial details and how we're raising our outlook for FY '23.

Brett Tighe Okta, Inc. - CFO

Thanks, Todd, and thank you, everyone, for joining us. I'm excited to officially take on the role of CFO. I've seen tremendous growth during my 7 years at Okta, and we are still just scratching the surface of the \$80 billion identity market. I look forward to working together with the team to capture this opportunity.

Before I get into the results, I want to take a moment to share my top priorities as CFO. First and foremost is executing against our near-term financial targets as well as our long-term financial goals. I'll detail the near-term targets in a few minutes. 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 must 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. I'm focused on ensuring that Okta will continue to make the right investments that support our growth. At the same time, we will continue to be prudent with how we allocate capital.

My second priority is ensuring that we continue the seamless integration of Auth0 across all facets of the company. Now that the back office and go-to-market teams have been fully integrated, we will continue to refine our systems and processes to ensure that the tremendous growth opportunity we see will be realized. We are off to a great start and recognize there is still a lot of work to do.

With that, I will now highlight some of the results for the fourth quarter as well as provide our business outlook. Total revenue for the fourth quarter accelerated to 63%, driven by a 64% 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 \$2 million and recognized purchase accounting adjustments was \$56 million.

RPO or backlog, which for us is contracted subscription revenue both billed and unbilled that has not yet been recognized, grew 50% to \$2.69 billion. Current RPO, which represents subscription revenue we expect to recognize over the next 12 months, also experienced strong growth of 60% to \$1.35 billion. This strong growth in cRPO was driven by strength across new and existing customers for both Okta and Auth0, as demand for our products remains robust, fueled by the macro trends that have been driving us for years.

Total and current calculated billings grew 91%. Calculated billings includes the effects of billings process improvements that were implemented at the end of the first quarter of FY '22. Excluding the billings process improvements, calculated billings grew 71%.

Turning to retention. Our dollar-based net retention rate for the trailing 12-month period increased to 124%. 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 remain 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 81%. The growth in expenses is primarily attributable to the inclusion of Auth0. Total head count now stands at just over 5,000 employees, up 79% year-over-year.

Moving to cash flow. Free cash flow was \$5 million, which yielded a 1.3% free cash flow margin. The sequential decline was driven by investments we are making to scale the business and were primarily related to higher head count. 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. The secular market tailwinds and our leadership position in the identity market continue. We're making great progress integrating Auth0 and continue to be prudent and thoughtful about the rate and pace of near-term synergies. This is reflected in our guidance.

With that as a backdrop, for the first quarter of FY '23, we expect total revenue of \$388 million to \$390 million, representing a growth rate of 55% year-over-year; non-GAAP operating loss of \$51 million to \$50 million; and non-GAAP net loss per share of \$0.35 to \$0.34, assuming weighted average shares outstanding of approximately 155 million. For the full year FY '23, we are raising our revenue outlook by \$35 million from our preliminary guide provided last quarter. We now expect total revenue of \$1.78 billion to \$1.79 billion, representing growth of 37% to 38% year-over-year.

Additionally, we expect non-GAAP operating loss of \$185 million to \$180 million and non-GAAP net loss per share of \$1.27 to \$1.24, assuming weighted average shares outstanding of approximately 157 million. Included in this outlook are expectations for increased sales and marketing investments to help us capture the large market opportunity in front of us. This includes further investments to build out our go-to-market operations in key areas, such as CIAM, international and public sector.

Lastly, I want to provide a few comments to help with modeling Okta. First, for Q1, we expect current RPO to grow in the low to mid-50% range. Second, the billings process improvements that were implemented last year has led to some confusion, so I'm ongoing to provide specific billings commentary on a onetime basis for clarity. We expect Q1 FY '23 billings of approximately \$385 million to \$390 million. When viewed on a like-for-like basis, Q1 billings growth would be approximately 50% to 52%.

For the full year FY '23, we expect billings to be approximately \$2.18 billion to \$2.19 billion. The FY '23 billings growth rate experiences a headwind of approximately 9 percentage points due to the process improvements impact. When viewed on a like-for-like basis, FY '23 billings growth would be approximately 35% to 36%. Be sure to reference the supplemental slide in our earnings presentation, which outlines this modeling detail.

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 finally, we will continue to invest in our growth in FY '23 and beyond. As such, we expect free cash flow margin to be down a few points year-over-year.

To wrap things up, we had a great quarter and end to the fiscal year and are extremely excited about the \$80 billion market opportunity in front of us. Okta is very well positioned to build on its strong foundation and market leadership position in both workforce and CIAM, which gives us continued confidence in our near-term and long-term outlook.

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

Dave Gennarelli Okta, Inc. - VP of IR

Thanks, Brett. I see that there are already quite a few hands raised, so we'll get right into them, and I'll take them in the order that they came in.

QUESTIONS AND ANSWERS

Dave Gennarelli Okta, Inc. - VP of IR

(Operator Instructions) So with that, we'll go to Matt Hedberg at RBC. Matt?

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Todd, maybe I'll start with you. There's been -- strong results to end the year, first of all. But there's been a lot of questions on the competitive environment and just the strength of the identity market, which clearly, from your results, look strong. Can you talk about maybe the importance of identity as we emerge post-COVID? Because it strikes me that there's a lot of opportunity, not only for net new, but also large replacement deals from some legacy installments.

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

Thanks, Matt. Yes, we're really excited about it. And this is -- we talk about this a lot, which is -- resonates because it's so true. The more cloud applications customers want to buy, the more they want to build on cloud infrastructure, the more they want to build better experiences for their customers and the more they want to do it all securely. This shifts that -- this is -- these are huge secular shifts that put the market in our favor because to do all those things effectively, you have to have identity.

And it's really -- it's a pretty big shift in technology. 20, 30 years ago, you did identity by getting it as part of another platform. You got it with -- you got your Windows server. It had identity in it. You got maybe some identity from Oracle or CA, the management crew -- management vendors. But it's different now.

And we're successful because identity is so prevalent in all these trends. And to be successful, to successfully get all of this cloud technology to your employees to reimagine your customer experience and do it all securely, you have to have an identity system. And that's what we're out there offering to customers of all sizes and all verticals. And that's why we're having these results.

The reality of it is that not everyone knows this yet. If you talk to 10 CIOs, maybe 3 of them would say, "Hey, this is the future. Identity is the central platform. Identity is one of my primary clouds. It's going to unleash all this potential for me and keep me more competitive." Only about probably 3 out of 10 know this, and I bet 2 of them are our customers. And the good news is that more and more people every day are learning this and people that are making technology decisions. And they realize that if you want to do Zero Trust, if you want to have choice in technology, you need to do it with identity, and we have the leading identity platform. And so that's what we're focused on, making sure everyone understands that.

Specific to COVID and the pandemic, a lot of people ask me about how has it impacted your business? And I think it definitely had some, I think, some incremental positive impacts as people rushed to do remote work. And it had some headwinds as people -- maybe their own business was -- they're not sure how their own industry is going to be impacted or they just had other priorities they were working on, and they weren't sure about the future.

We -- our own investment level was a little bit -- we weren't sure about the future, how much we should invest, what the environment is going to look like. But I think as now we end the near -- the acute phase of the pandemic and the world starts to get back to normal from a pandemic perspective, I think it probably maybe had a little bit of a headwind on us. But what's powered our growth is -- are these macro trends.

So when I look out in the out-years ahead, our priority is very similar to what it's always been. It's like we have to establish this vision of identity as this primary platform. And it's got to do both use cases. It's got to do customer identity and workforce identity. It's got to be -- it's got to get to scale. It's got to meet customers where they're going, and that's why I'm so excited about the CIAM business momentum. It's why I'm excited about the results.

And competitively, we don't -- we're not -- we're very, very, very differentiated. We have point competitors that can't -- don't have the scale or the breadth. We have the big platforms, companies like Microsoft, that they have identity, some of the things that look like us, but they're not neutral. They're, at the end of the day, trying to sell you their collaboration or their infrastructure, and they're not about giving customers choice and flexibility. So that's -- I think if you unpack the results a little bit, those are just some of the things that are driving them.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Super helpful. And then maybe just a quick one for Brett. First of all, Brett, congrats on the promotion. I'm wondering, from your op margin guide, how much of that is Auth0? And maybe how should we think about the timing of return to sort of more positive op margins?

Brett Tighe Okta, Inc. - CFO

Absolutely. Thanks, Matt, and thank you for the kind comments. From the operating margin guide, it's really both businesses. But I would say, as a reminder, Auth0 is an earlier-stage business than Okta stand-alone is. And so you see some of those unit economics that are a little bit less than what Okta is on a stand-alone basis.

Now from a long-term perspective, you're probably asking in regards to the long-term framework that we've talked about. Look, we're going to operate the business the same way we've operated the business from day 1, which is we've always looked at the Rule of 40 and balanced revenue and growth together. When there's great growth opportunities, we're going to go get them. And obviously, when there's margin opportunities, we're going to go get those as well. So it's something over the long term we've done for years now, and we'll continue to do so in the years to come.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Let's go to Jonathan Ho at William Blair.

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

I just wanted to maybe start out with the integration of Auth0. And maybe can you talk a little bit about sort of that sales force integration effort and maybe where you're seeing some successes, things that have surprised you?

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

Yes. We are -- thanks a lot for the question, Jonathan. We are very excited about the integration of Auth0. We're very excited that it's been done in just under a year from where we are because we actually announced the acquisition a year ago tomorrow. As -- to start with, I think the most important point is the go-to-market organization, which we unified under Susan's leadership on February 1. You heard Todd talk about one team, which I think is a great position to be in. We've put together a lot of the core systems that we're using to run the business. Those are all running on one platform. So we have one pane of glass and good visibility into all that and how it's working. There's a couple more pieces we need to finish up in terms of ticking and tying some of the systems on the back end, but those are just making sure that we're working as one organization going forward.

And so far, you can see the results. I mean, the results speak for themselves. This is even before we had this one go-to-market organization. We've got great opportunities in these large organizations where we're landing with Okta Workforce and Auth0. We've got these great cross-sell opportunities like Carvana, where they've been a long-time Okta Workforce customer and then became an Auth0 customer. So I think there's a lot of different synergies that we're starting to see already. As Todd mentioned, the businesses are both going very, very well. Overall, when you look at where CIAM is and how far it's come, 60% year-over-year growth, we're very excited about that. But I think we're just getting started in this big opportunity, and that's the fun and exciting part for us.

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

Yes. And one -- Jonathan, one thing I'll add there to Freddy's comments, if you look at the first 3 quarters, the strategic reason for this acquisition was that identity is one of the most primary and important clouds in our customers' environments. To be that primary cloud, you have to support both use cases. You have to support workforce and customer identity.

And furthermore, the customer identity use cases were really divided between what the Okta CIAM platform does and what the Auth0 platform does. And Auth0's more developer-centric, more -- you can customize it, extend it, control every bit and byte. The Okta platform is more pre-integrated and low code. And so the idea was that there were -- these are complementary platforms.

And when I look at the results, you see that bear out in the results. You see 81% growth in the Auth0 platform over the last year-over-year comparison, and you see nearly 50% growth for the Okta CIAM platform. So we -- you're seeing 2 complementary platforms helping us

drive toward -- be very successful in this market, which unlocks this concept of being this critical, critical primary cloud for every organization in the world.

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

That's it. I'll stick to one question. But congrats, Brett.

Brett Tighe *Okta, Inc. - CFO*

Thanks, Jonathan.

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

All right. Let's go to Ittai Kidron at Oppenheimer.

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

And Brett, my question is for you. I want to dig into Matt's question around the operating margin loss target for fiscal '23. I have to say, I mean, great quarter, but that was certainly a number that caught me a little bit off base. And so can you give us a little bit more detail on the plans for the year as far as head count additions? And what is the run rate loss that you expect to have exiting the year?

And is fiscal '23 a peak year? I mean, are we finally from here moving into a much more accelerated path towards profitability? I think some of the comments I'm getting from investors here, this was certainly a little bit off base with regards to their core assumptions. So any more color on -- clearly, there's opportunity, but if you could be more specific on where and why and the ROI behind it. I think, hopefully, that will provide a little bit more comfort and logic behind it.

Brett Tighe *Okta, Inc. - CFO*

Absolutely. I'm happy to talk about that. So if you think about SaaS business anywhere, right, you got to invest in front of the demand or invest in front of the opportunity. And we've only got a \$1.79 billion guide, which, by the way, we're very excited about in terms of revenue for FY '23. But we've got an \$80 billion market out there. So we feel the best opportunity is out in front of us to be able to invest into that opportunity.

So areas where we're spending additional money: so adding quota-carrying AEs; adding salespeople across the board, whether it be sales engineers; or areas in pipeline generation. You can see by the momentum in the business, it's clearly a huge opportunity in front of us. And that's what we're going to invest for. We're going to invest in -- and additionally, we're also going to invest in the product side of the house and supporting our customers, right. When you add this many customers, you've got to be able to support them.

So really, it's going to be up and down across the P&L from an investment perspective because we're just scratching the surface. I've said earlier in the call, we've got so much upside in this market opportunity that it would be -- it wouldn't be the right decision not to invest into the opportunity because we do see a tremendous amount of momentum in the market today.

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

Is this a peak year? Are we improving thereafter?

Brett Tighe *Okta, Inc. - CFO*

Is this a peak year? What do you mean by peak year?

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

As for operating loss.

Brett Tighe *Okta, Inc. - CFO*

Well, I mean, I think if you look at our long-term goals that we've got out in front of us, right, we've got revenue of \$4 billion, growing at least 35% each year between now and then and also the 20% free cash flow target. We are going to balance growth in margin just like we have in the past, and you'll see that as we move through this time period between now and FY '26.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Let's go to Andy Nowinski at Wells Fargo.

Andrew James Nowinski Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

Congrats on a great quarter. Just have a few questions maybe on your upcoming IGA product launch. It sounds like it might be generally available a little bit later than previously expected. Can you just talk about whether there were any sort of significant changes coming out of that beta test phase that you want to implement before making it GA?

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

The IGA product is actually a little bit ahead of schedule. There might be some confusion on, when we talked about it last year, being available in the first quarter of this year. Was it -- were we talking about EA or beta or GA? But the internal schedule, which has been clear along, we're a little bit ahead of that.

And the beta, which is going on right now, is going very well. We're seeing success with a lot of different size of customers. We're seeing really a natural -- it's a natural complement to our Advanced Lifecycle Management product with significant new value for customers and new things they can do to automate their business with its access request or access certifications, which is a very, very natural extension of our core product line. So we're very bullish on that.

On the PAM side, I think PAM is actually a little bit behind what we originally thought. And the reason why is because as everyone knows, we're -- our product Advanced Server Access is really -- it's in the PAM market today, very focused on server admins and server -- controlling access to servers. And we've done a couple of shifts where -- and we've learned a little bit more about the requirements in the PAM market. And we've made some decisions to put some of that capability into the Advanced Server Access product and then put more -- additional capability, which is going to take a little bit longer in the PAM product. So you're going to see that. That's a little bit delayed. But still, we're expecting to make a bunch of progress on that this year. And we'll be talking more about that as the year unfolds and then also leading up to Oktane in the fall.

Andrew James Nowinski Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst

And then just a clarification. Did you include any contribution from the IGA solution in your revised annual outlook, given that it will be GA in midyear, I think you said?

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

No. It's making a very, very conservative assumption that it won't have any contribution there.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Let's go to Adam Tindle at Raymond James.

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

Todd, I just wanted to maybe take a step back on the fiscal '23 plan. You talked before about going through a strategic planning process into this. Just want to know maybe the different outcomes that you considered. I'd imagine that you had some that were involving -- showing consistently improving profitability, for example, and maybe the flip side or risks to a more profitable growth plan. And what got you comfortable deciding on more aggressive spending near term.

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

Yes. The -- I'm happy to give you color into that. It's -- I'm kind of laughing a little bit because it's actually pretty simple, the way we think about it. And we've been consistent on this over the last 5 or 6 years, which is that we look at our internal efficiency of our investment across the business, whether it's mostly -- the most direct link between investing and payback in terms of new revenues and sales and marketing. So we just look at that efficiency. And as long as we can continue to drive up efficiency, we continue to invest.

We're always going to be -- we're never going to burn cash. We want to increase cash flow. Over the long term, we want to increase the free cash flow margin to that stated goal of 20% over time, but we're going to make sure we're efficient. And so we can grow, we can

serve customers. We can make them successful. We can take market share, and we can do it in this -- under this efficiency framework. We're going to do it. So it's been relatively simplistic.

So the main things are, how is the efficiency internally? How's the growth rate? And what's the market? How is the customer success? And that's -- what can we do to capture the opportunity?

Brett Tighe Okta, Inc. - CFO

Yes. I would add to that a little bit. First and foremost, we've always had a bias toward growth. But we've also, to Todd's point, always looked at efficiency and always managed on the Rule of 40. And so the guidance you've seen today and the commentary earlier in the call still reflects that. We are definitely managing that Rule of 40, and we believe that's the right thing to do to go capture the opportunity upfront, because it is a massive one in front of us. So we feel that the time is right to go and grab as much market share as possible.

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

Makes sense. And Brett, maybe just a follow-up for you, just wanted to marry sort of the qualitative commentary versus the quantitative messaging here. Qualitatively, we're seeing a lot of acceleration in large customers. The demand environment is incredibly healthy. You're investing in public sector. In the past, you've talked about focusing on cRPO as a key metric, and it was outpacing subscription revenue growth in the past, and that was kind of an indication of acceleration. But that's starting to invert based on your guidance. And just wondering if you could double-click on why that would be the case and how cRPO should track for fiscal '23.

Brett Tighe Okta, Inc. - CFO

Yes. Thank you for bringing that up. I'm so happy you brought up current RPO. It's my favorite metric, which you can see clearly was a strong quarter in Q4. And the guidance we've given you today of low to 50% range for current RPO in Q1 is also quite a strong guide. And so if you think about the impact on the fiscal year '23 revenue guidance, the combination of those 2 factors is translating directly into that increase of \$35 million, up to \$1.79 billion, growing 38% year-over-year at the top end of the guidance.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Next, we'll go to Eric Heath at KeyBanc.

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

Great. Brett, congratulations. So Todd, Brett, I did want to ask on the quarter on Okta stand-alone. I think most of your peers showed some acceleration this quarter. It looks like Okta stand-alone decelerated maybe 1 point. So just anything you'd called out in terms of the quarter that might have been a little bit softer than you might have expected.

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

Yes. We're very excited about that 39% Okta stand-alone revenue growth. So Eric, thanks a lot for bringing that up. When you look at the size of the business, I mean, the workforce business is already 63% of the total business. It's a billion-dollar business at this point, and it's growing significantly year-over-year. You add in what's going on, on the CIAM side of the house, and we're very pleased with that as well.

So we look at the business holistically at this point. Obviously, there's a big opportunity when it comes to workforce. That's going to be a very nice business for us in the years ahead. You can hire account executives who know how to sell enterprise IT, they know where to go find it. There's a lot of legacy Oracle, IBM, CA, RSA that over time, we're just going to slowly rip and replace. So obviously, our dollar-based net retention continues to be very strong. It's up 124%, up from 122% last quarter. And that's because our motion of landing and expanding inside these large organizations is going very well.

And so on the workforce side, that business is going to continue to go very well. That's why you see us coming into these natural adjacencies of IGA and PAM. It's not as if we're sitting here and wondering what we should be building next, and a lot of that is customer demand. Todd talked a little bit about IGA and the early access this month to a limited number of customers. I mean, that's going to launch in North America by midyear, globally by year-end. And that's a natural priority for us, which aligns with a lot of what we're doing around workflow and life cycle management.

And then when you think about customer identity and access management, I mean, that market has gone from 0 when we went public 5 years ago to a \$30 billion TAM today, where we are the clear leaders with the only cloud-native identity management platform, whether you're looking for a developer up or you're looking for tops down. And that's why you're seeing in that business the almost 60% year-over-year growth of that.

And that -- the competitive landscape, which we haven't really talked about, it's all greenfield. I mean the opportunity is just helping customers be successful. And they have a shortage of developers. They need to focus on their core businesses. The more we can make it easy for them to just take identity off the shelf and put it inside their applications and infrastructure, the better off they're going to be. And we see that as a huge investment opportunity, back to the previous question.

So we're very excited about the overall growth in the business. If you'd told me when we started that we'd have this business today of 5,000 employees, being on almost \$400 million revenue quarter, growing 63% year-over-year and accelerating, I would have taken that in a heartbeat. What I would tell you, though, Eric, is we're very excited about 15,000 total customers. We're very excited about adding a record 1,000 last quarter. It should be 50,000 and 100,000, and that's the exciting opportunity for us ahead.

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

That's great. And then just one follow-up on that point. I mean, great to see the large customer adds and the NRR kind of tick back up. So any way we should kind of think about the change to the formula for '23 in terms of large lands versus expansions, and maybe what effect it might have on the NRR rate?

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

Yes. I mean what I would say is we have continued success with large enterprise. Obviously, we gave everyone -- I think in April of last year when we had an Investor Day, we gave everyone an update on \$500,000 ACV customers and over \$1 million ACV customers. I mean those numbers now are almost 600 and almost 200, respectively. I think that's growth of about 60% year-over-year compared with 50% year-over-year a year ago. 30% of the G2K are now customers. Todd talked a little bit about some examples early on. I mean that's great. But again, I think the opportunity ahead is the really big one.

Look, when you come out with these new products, things like IGA that are critical to our organizations, it's not about the 2,000 companies maybe today that are using an on-prem IGA solution. It's about the next 25,000 and 50,000 who want that kind of functionality and are never going to implement an on-prem legacy product from yesteryear. They're looking for a modern cloud solution.

Same is true with PAM. If you look at Advanced Server Access, the beginning of that PAM product, I mean, Zoom for this very webinar that we're on right now, they use Advanced Server Access to protect all of their production infrastructure for all of their servers around the world. Those are the kinds of future opportunities that I think are going to be very exciting when we think about where we're going and how we're going to get there.

Absolutely, the land and expand is very good. Historically, we've talked about a 115% to 120% range. I know it's ticked up over that. I'm really sorry. I know when it gets bigger, that means that we're cross-selling and upselling too much. I know when it goes down, people are upset that we have so many new logos. So we're doing the best we can to balance it, but we're very happy about where we are. And I think it shows a very good, balanced approach to helping customers be successful with our solutions.

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

Great. Let's go to Alex Henderson at Needham.

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

I wanted to go back to the PAM commentary. My understanding is the PAM -- the only thing you gave guidance on in terms of time of launch was on the governance side. Can you give us any clarity on when you expect the PAM products to launch? And how we should be thinking about that product in terms of the timing to get to market?

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

It's an important area for us as we expand -- on the workforce side of the house to expand what the platform can do. If you look at what customers are -- more and more, customers are building software themselves, which means they have critical servers and containers and things they need to secure. And what better to do that than the leading access management platform mapped to those resources.

And that's what our Advanced Server Access product is. A customer like Zoom can get tons of value added as they have to manage tens and tens of thousands of servers and many, many operations people and developers accessing them in a secure way, which -- by the way, which is remote, right. Because they don't all go to the same office and access a dedicated data center. It's in cloud data centers and remote work. So an identity platform, like Okta, is really well positioned to provide value there.

The -- in terms of the expectations in terms of the financial results, we're taking a very conservative assumption this year that PAM is not going to contribute revenue to this year. But it is an important area we're working on. And what we're doing as we develop the product is we're balancing out the existing product and what capabilities we add into there and then what capabilities do we put in the follow-on to that, which is the PAM module, and how we balance those out. We made the decision to put things like managing active directory-based servers. We decided to put that into ASA. So it's taking that a little longer. So the PAM is going to be -- PAM module is going to be pushed out a little bit. But yes, we'll be talking about more details in terms of when it's going to be available to customers. And -- but from an investor's perspective, there's no -- for this year, there's no dependency there.

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

So we don't -- you don't have a date for the launch of that product at this point. The second question I had for you is on the operating spending. I really was trying to get a handle on what rate of staffing capacity you're adding specifically to the sales capacity. Obviously, the spend is up substantially. You're more -- much more aggressive. Is the capacity adds, setting up not just for this year but for next year, coming in at close to a 50% increase in sales capacity reach?

Brett Tighe Okta, Inc. - CFO

Absolutely, Alex. I'll take that one. You sound like you know our business, obviously, clearly very well. Whenever we're building capacity, we're not building it just for this year. We're building it for future years, right. So we've historically built capacity in year for the following year. And so we're going to continue to do that, and that's part of the investment levels you see in FY '23. And when Todd talked a few minutes ago about our sales efficiency, that's something we always looked at when we're thinking about, "Okay, what's the right balance here to add as much as we possibly can while also balancing that efficiency level as we go after this market?"

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

Is that 50% number reasonable?

Brett Tighe Okta, Inc. - CFO

I'll let you draw your own conclusions, but we're trying to grow as fast as we possibly can.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Let's go to Rob Owens at Piper.

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

Curious around Auth0. Any high-level guidance as we think about next year? I know you're going to tell me we're not going to break it out for you. That being said, anything with regard to seasonality and kind of how should we think about the growth of that and CIAM overall?

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

Well, I think that we're investing a lot in making sure CIAM is successful. And the proportionate investment is -- a lot of that's going to Auth0, but we're also investing a lot in the Okta CIAM platform. So it's a big, strategic, important thing for us. And you're right, we're not going to break out the specific expectations around growth rates beyond the guidance we've already given. But if you look at the top 3 priorities for the strategic plan of the company next year, #1 is winning that market. And you can imagine, that has a lot of importance and priority based on being successful with the developer motion of Auth0, but then also broadly speaking, growing the CIAM business

aggressively.

It's a big -- if we want to execute on this vision of a primary cloud, like I've said before, you have to provide both. You have to have -- be the leader in workforce and the leader in SIEM. And we are the leader in workforce, and we're making sure we're going to be the leader in both. So that's the top, strategic priority we have as a company.

Brett Tighe Okta, Inc. - CFO

And Rob, this is Brett. Well, going forward, we're going to continue to break out workforce versus CIAM on a fairly regular basis, like we have in the past. So we'll definitely keep everyone informed on the progress in both markets because they are obviously -- both are very important to us.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Next, let's move to Adam Borg at Stifel.

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

Maybe just on the channel business. I'd love a quick update on the overall channel strategy and how that performed in the quarter. And maybe just as a quick follow-up, I know Auth0 is more of a bottoms-up sale to developers. But I was just curious what kind of opportunities there are to get the channel more involved with Auth0.

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

Thanks, Adam. Yes, we are very excited about partnerships in general and the channel specifically. When we think about channel, there's obviously a lot of different constituents, many of who have been involved with large organizations for many years helping them, whether it's on the security side of the house or digital transformation side of the house. So for us, it's everything from the large account resellers to value-added resellers. There are regional security providers and partners out there. There's obviously the global systems integrators, and then there are the large platform players out there, which we also consider channel.

I mean when you think about the large system integrators, I think Kyndryl, that Todd mentioned earlier, is a great example. I mean this is an IT infrastructure provider formed from the separation of IBM's managed infrastructure services business. These are the folks of IBM's managed services, 90,000 employees. They came from IBM. They started a new company last year, and they didn't go with IBM. They went with Okta.

Now a part of that was they want to use Workforce. Part of that is they want to use CIAM. But also, they said, "Hey, a big part of this is we want to get used to and understand how this works because this is the platform that we want to go and integrate for our customers going forward."

And so when you're starting to get that kind of reach and that kind of scale off -- out of the gate, that's a big deal for a company like ours. Obviously, we're very excited about the results and 5,000 employees, an amazing team, it's growing very fast. And we talked a little bit about the sales organization, organizing it as one unified team with Auth0 and Okta starting Feb 1. And that's all going very well. But when -- then, when you add in almost 100,000 employees at the #1 service provider in the world, that's a huge kind of reach, number one.

Number two, when we think about what's going on out there, independence, neutrality, the freedom to deploy best-of-breed technologies, that's what customers are asking for today. I mean that is what is driving our business. And so that's why things like our partnership with AWS, for example, where we're the only managed identity provider, I mean, they have 9,000 reps. Those reps get paid commission and quota credit on selling Okta.

The same is true when you think about what's going on at Google or you think about the large software as a service providers, whether it's Salesforce or Workday or ServiceNow. I mean they're all giant customers of ours, and they bring us into all these deals. Because we make their solutions get deployed much more quickly and successfully. So for us, the channel is really this whole world around us of, the world is going to more independent, there's more neutrality, and there's a lot of people who have an aligned interest with us on making

their customers successful with identity. So we're very excited about that.

When it comes specifically to Auth0, they have this amazing model of developer op. That was the second part of your question, I think. They have this amazing model of developer op, where they do a lot of landing. And they've got thousands -- tens of thousands of free accounts, tens of thousands of developers paying credit card monthly, and then they upsell them into the enterprise. That's something that we're just putting all together as well. I mean, we just have the go-to-market organizations as one as of a month ago. So we're just starting to understand really how all of that works.

But yes, I mean, that's another huge opportunity. I mean you could think of developers as a channel. They're out there talking to each other about what are you using and how are you using it. And they're recommending the best solutions. And you can just see by the tens of thousands of successful and happily deployed developer and free accounts on the Auth0 system that, clearly, that's working very well. So yes, I mean, there's a lot of opportunity. It's early days, but we're very excited about how that might work, and working with a lot of the folks who are out there making our joint prospective customers successful.

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

Yes. One more thing I'll add, too, is Auth0 before 3 -- 4 quarters ago didn't have a huge presence with the global SIs. And with -- now that they're part of Okta, we're really working on getting it in the hands of the global SIs. Because what do the global SIs do? They want to build stuff. They want to build digital transformation projects for their customers. And what do you need to do that? You need that data platform for developers. So that's a big area of boost, I think, in terms of our relationship with the global systems integrators, to have an Auth0 to work with them on.

Dave Gennarelli Okta, Inc. - VP of IR

Great. Well, I still see 9 hands raised. (Operator Instructions) And next we'll go Stefan Schwarz at BTIG.

Stefan Alexander Schwarz BTIG, LLC, Research Division - Associate

I'm on for Gray. On IGA and PAM, I know you said that they're not really baked into the guidance. But how should we think about the potential for them once they go generally available? And then how quickly should they contribute to billings once they go live?

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

They're -- I think about this long term. It's -- they do 2 things. One is that they allow more value prop of the platform. So you can -- it's basically upsell value. And also, it's just going to -- it's going to -- it provides a broader set of capabilities. So it just tips over the center -- the mass that it takes some of these big older companies to adopt a new identity stack. So if you're going to -- many customers adopt a new identity stack piecemeal, one-by-one. And that's how Okta traditionally has been very strong. It's very -- you can take it as a component. You can use it for one use case and then slowly expand over time.

But as we build out on the workforce side the entire suite, the PAM, IGA and broader workforce capabilities, access management and the other things, life cycle management, what we do, the -- it's just going to become really overwhelming, the value. And it's going to lead to more, I think, big new lands as well. So the platform approach and having this suite of products is going to help both there.

In terms of the pace of bookings contribution, it's -- we haven't really modeled that out in detail. So I can't really speculate on that.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Let's go to Trevor Walsh at JMP.

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

Great. Todd, you mentioned at the outset around kind of some of the key drivers, one of those being Zero Trust initiatives. Can you give us a little bit more detail on how in the field that plays out around those engagements? And maybe this is a good one for Freddy to chime in on, too, just in terms of, is it a broader RFP, where there's kind of the network component, the identity component, you're all coming in at the same time? Or have they kind of made their choices and then they're bringing in Okta kind of after the fact to layer in that piece? What does it look like in those -- when a customer has that as their kind of main focus as to why they're bringing in the identity piece?

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

I think that there's -- I would divide it in 2 camps of customers. One is customers that are really trying to nail down what it means to them, what Zero Trust means and how they get there. And for those customers, you see them making more of a traditional identity management decision, where it's they think about, "Okay, we need to do maybe multifactor authentication. We need to have ease of access to apps. We want to provision some apps on the back end. It's more traditional." And then as they figure that out, we can help them and say, "Hey, here's the road map or here's the blueprint on how you get Zero Trust. And now that you've made this identity decision, here's the other pieces you need." And they can look at our integration network and the 7,000-plus pre-integrated systems, and we can help them guide them down that Zero Trust journey.

There's another -- I'd call them a more advanced set of customers that they know what they want for Zero Trust. And they're coming to leaders like Okta, leaders like Zscaler, leaders like CrowdStrike. And they're saying, "These 3 components are what's going to give me my Zero Trust solution. We're going to buy it together." I've been working on many big, big accounts with the teams from Zscaler and CrowdStrike, and there's other players as well. But the 3 of us seem to have been having some success together.

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

Yes. Just adding some specific examples. I mean I think we recently saw in some surveys. I think north of 80% of the Global 2000 now have stated initiatives around Zero Trust security. Very good examples for us are FedEx, which is a very good and successful and happy customer of ours. We've been working with them for a couple of years. They started -- really wanted to deploy Okta very quickly when COVID hit 2 years ago. They had a much longer rollout plan, but they fast-forwarded it. And when we went down and met with them originally, I mean, they had on the whiteboard, this is a Zero Trust initiative. That was their initiative that Okta was baked right into the middle of. So certainly, I think you're seeing a lot more of that.

And then what you're also seeing on the public side is, OMB is now recommending to all federal government agencies that they need to have a Zero Trust security. So it's really gone from a buzzword 3 years ago where people were like, "Yes, Zero Trust, but I'm not sure what to do about it," to now, we really have the architectural documents where you can present templates to customers and say, "This is what organizations like yours in your industry or of your size and scope and scale are thinking about."

And I think that's provided a lot of value to customers out of the box because they feel like, "This is great. I'm not the guinea pig anymore. There are other very good examples. They're public. They're referenceable, and they're working very well." So yes, I mean, I think that, that is a big underpinning of what's also happened over the last couple of years. And I expect that to continue in the years ahead. I mean that is a long, big, durable growth vector that we see ahead, for sure.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Let's go to Taz at Guggenheim. Taz, you may be on mute.

No. All right. Hamza, we're going to go to you, Morgan Stanley.

Hamza Fodderwala Morgan Stanley, Research Division - Equity Analyst

Brett, I'll add my congrats to your official appointment. Look forward to seeing you all next week. Todd, maybe a question for you. So if I look at the bookings growth for you and some of your peers as well, it seems to be a lot more back-end loaded than it has even in prior years. I'm curious, as we return to the office or, I guess, some semblance of normality, are you seeing some of those larger like strategic digital transformation initiatives start to come back? And is that starting to contribute more to your bookings? And how would you characterize the pipeline going into '22 relative to how you were feeling going into '21?

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

The pipeline is strong. Yes, I'm very excited about the pipeline and its quality, depth, maturity. It's really, really good. The -- I can't -- I think the back-end loaded question, it doesn't -- I don't actually have that analysis in front of me. But it didn't seem any different this past year than it had been in previous years just from a kind of a qualitatively perspective.

And I think that your question about the big, digital transformation deals, I think that the broad -- if I were to paint it with a broad brush, I

would say these things are -- they're -- maybe during the early parts of the pandemic, they were put on hold as more people went after really tactical remote work to get people productive. And then pretty soon after that, these started rolling again, like these big customer identity projects or these big new initiatives that weren't a specific reaction to employees working from home or business continuity. And that's been -- that probably ran through all of last year and continues into the pipeline into next year.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Let's go to Brian Essex at Goldman.

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

All right. Brett, congratulations from me as well. Certainly looking forward to it. Yes, I was wondering, maybe for Todd as well, if you could speak to some of the organizational changes that have happened, particularly at the top end of the company. I know when we had you last month, you were super excited about integration of the sales forces, and it's great to see kind of Susan running that. And looks like Eugenio is handing the baton off for the Auth0 team. And it looks like you had some changes in the Chief Marketing Officer seat as well. So just maybe we can sense of that a little bit to see how you're aligning things and how the culture between the 2 organizations is maintained as you are trying to be very careful of the balance and making sure that you maintain that momentum with the Auth0 franchise.

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

Yes. Eugenio is just -- I want to be clear. He's the CEO of the Auth0 product unit. So he doesn't have sales working for him anymore, but he has basically everything else, whether it's R&D, whether it's customer success, the -- much of the demand gen. So it's a very important and significant role.

What we're getting is we're getting synergy on the -- really on the sales side. So we have -- all of the Okta reps now can sell all the products. So we increased the capacity. We can -- we increased what they can actually sell. So there's tons of upside from that. But Eugenio has a big job to do with the Auth0 product unit, driving that. They just delivered -- you heard the results. They delivered over 80% growth, and we expect them to produce a lot in the year ahead.

The other changes, I mean, Brett is a big appointment for us. I -- as you would expect, when we decided to make a change in the CFO, I went out and talked to many, many, many candidates and looked everywhere. And no one could get over the bar of -- the high bar that Brett has set. So I'm very excited to get Brett in the seat permanently. That's really exciting.

I'm also really excited about the CMO, John Zissimos. He's off to a great start. That was a little bit of an unexpected change there. The -- his predecessor wasn't as here as we would have hoped for. It was a little bit unexpected, but John's stepped into the role, and he's doing a great job. So I think some of the change is unexpected, but a lot of the change is directly involved with what we're trying to accomplish, which is win the CIAM market, scale this company out, grow aggressively. And I'm very, very excited about the future ahead of us.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. We're going to go into overtime a little bit here, but we'll try to get to a couple more. We'll go to Patrick Colville at Deutsche Bank.

Patrick Edwin Ronald Colville Deutsche Bank AG, Research Division - Research Analyst

And echo congratulations to Brett. So let me ask another question about margin, but I'm going to shake it up a little bit and ask about subscription gross margins. They were down this quarter 170 bps. Is this due to mix? Is it due to discounting? Is it your competition? So just, can you talk to that? And then how should we model this line for fiscal '23? What's baked into your operating margin guidance? Is there continued ablation on the subscription gross margin line?

Brett Tighe Okta, Inc. - CFO

Yes. So thank you for the question. Thank you for the kind comments. Around gross -- subs gross margin in Q4 and also into FY '23, that's us investing the upside back into the business, right. We want to be able to prepare for future growth. You can clearly see that in the revenue guidance and the cRPO results from Q4 and then my commentary around Q1 cRPO growth as well. So it's us putting money back in there and ultimately investing to be able to deal with the demand out in front of us.

So in terms of being more specific on FY '23, there's probably a little bit of a headwind on subs gross margins. That's one of the areas that we're investing in to get out and capture this massive market in front of us.

Dave Gennarelli Okta, Inc. - VP of IR

All right. Let's go to Rudy Kessinger at D.A. Davidson.

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

Great. If I look at Auth0, I think the last time you gave the growth rate in Q2, it was 63% year-over-year and then this quarter, 81% year-over-year, so a pretty big acceleration in Auth0. What -- how much cross-selling into the Okta installed base, how much has that been a driver versus just core strength in new customer acquisition and upsells within the Auth0 base?

Brett Tighe Okta, Inc. - CFO

It's really been both, frankly. You can see in some of the references we've talked about today, it's really strength in the market from just Auth0 on its own. But also, you've heard about, even in prior quarters, where some Okta customers may not have been as comfortable with a private company. But now Auth0 is part of the public company umbrella of Okta, and so you see it helping on that end.

And then I would also argue, there's help going in the other direction as well, right. So Auth0 customers who may not have had a workforce solution, that's also been helping us as well. I mean we've mentioned a few of those references last quarter in our earnings script as well as today in some of the prepared remarks.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. Let's go to Josh Tilton at Wolfe Research.

Joshua Alexander Tilton Wolfe Research, LLC - Research Analyst

Just a high-level one for me. There was a stat out in February that only 22% of Microsoft Azure Active Directory customers have MFA, and that kind of struck me as pretty low. I'm just curious, how does that compare to your customer base? How do you guys think about the broader MFA opportunity? And do you guys expect any tailwind to your MFA business now that Salesforce is mandating MFA on all their products?

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

I think the opportunity is big for MFA. We talk a lot about these advanced customers that are -- have figured out the Zero Trust architecture and are strategically picking vendors. Freddy mentioned FedEx, but many, many customers are still doing what some people consider relatively basic things, like adding MFA in all their environments. And many of the hacks you see are still basic things, like accounts aren't locked down when they should be or disabled. Or there's an easy-to-compromise account that doesn't have multifactor authentication.

And the reason why, it's not because people aren't trying hard or they're not smart. It's because it's been too hard. And what we do is we have this pre-integrated solution that you can connect it to all your applications and we -- where you can set up our MFA. You can even set up other MFAs connected to the Okta platform. It connects to everything.

Now our MFA platform is doing very well, and it can let you do your multifactor from Face ID or Windows Hello. And more and more customers are using it. But that's -- it's a big part of the strategy to help our customers be more secure with technology.

Dave Gennarelli Okta, Inc. - VP of IR

Okay. And last, we're going to bring it home with Fatima Boolani at Citi.

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

Brett, this one's for you. I'll keep it tight. You didn't mention sort of process improvements. So I'm assuming it's sort of a nonissue here. But can you just update us that -- if you've mechanically sort of achieved all of the sort of time stamping on the contracts? And if the entire installed base has been sort of recalibrated under the operational process improvements umbrella? And then relatedly, how

should we think about billings and cash flow seasonality for fiscal '23 as we lap some of those compares working through the year? And that's it for me.

Brett Tighe Okta, Inc. - CFO

Yes. Absolutely. So yes, I mean, the process change has been fully implemented. So the entire customer base is on it. I mean now granted, not everybody has had a billing since then. But the entire customer base is on there.

In terms of billings seasonality, we expect about 60% in the back half of the fiscal year, which is in line with historical normal that we've seen over the last few years. And then free cash flow will follow more or less the same historical seasonality that we've had in the past. So not really much different in terms of billings seasonality nor free cash flow seasonality.

Dave Gennarelli Okta, Inc. - VP of IR

All right. That's it for today, folks. Thanks for tuning in. Before you go, I want to let you know we'll be attending a few investor events this quarter. We'll be at the Morgan Stanley conference, which is in person in San Francisco on March 8. There's also the Daiwa Investment Tokyo Conference that we'll be attending virtually on the 8th as well, and the Wolfe Research software conference that we'll attend virtually on March 23.

So that's it for today. If you have any follow-up questions, you can e-mail us at investor@okta.com. Thanks.

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