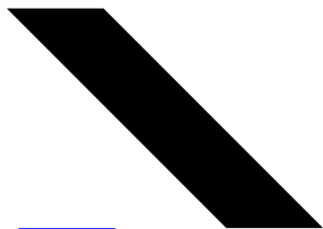


REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2025 OKTA INC EARNINGS CALL

EVENT DATE/TIME: August 28, 2024 / 9:00PM UTC



CORPORATE PARTICIPANTS

- **Dave Gennarelli** *Okta Inc - Senior Vice President, Investor Relations*
- **Todd McKinnon** *Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder*
- **Brett Tighe** *Okta Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **John DiFucci** *Guggenheim - Analyst*
- **Shrenik Kothari** *Robert W. Baird & Co., Inc. - Analyst*
- **Annick Baumann** *Jefferies LLC - Analyst*
- **Madeline Brooks** *BofA Global Research - Analyst*
- **Charlotte Bedick** *JPMorgan - Analyst*
- **William Vandruck** *Scotiabank - Analyst*
- **Manraj Singh Bevli** *Bernstein Institutional Services LLC - Analyst*
- **Mark Cash** *Raymond James - Analyst*
- **Trevor Rambo** *BTIG - Analyst*
- **Brian Wilcox** *Cleveland - Analyst*
- **Michael Steven Richards** *RBC Capital Markets - Analyst*

PRESENTATION

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Hi, everyone. Welcome to Okta's second quarter fiscal 2025 earnings webcast. I'm Dave Gennarelli, Okta's Senior Vice President of Investor Relations. With me on today's meeting, we have Todd McKinnon, our Chief Executive Officer and Co-Founder; and Brett Tighe, our Chief Financial Officer.

At around the same time that the earnings press release hit the wire, we posted supplemental comment on our IR website. This posted commentary contains much of what would historically be the opening commentary, including the customer commentary, product-related news and a review of our financial results. This format allows listeners to review that information before this call.

Today's meeting will include forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause our actual results or performance to materially differ from those statements.

These statements represent our management's beliefs and assumptions to date and except as required by law, we assume no obligation to update them in light of future events or new information. Information on factors that could affect our financial results is included in our SEC filings, including the Risk Factors section and our last Form 10-Q.

During today's meeting, we will discuss GAAP and non-GAAP financial measures. Though we may not state it explicitly during the meeting, all references to profitability are non-GAAP. 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.

A reconciliation of our GAAP and non-GAAP financial measures is available on our earnings press release. You can also find more detailed information in our supplemental financial materials, which include trended financial statements and key metrics, posted on our Investor Relations website.

In today's meeting, we will quote a number of numeric or growth changes as we discuss our financial performance, and unless otherwise noted, each such reference represents a year-over-year comparison. And now, I'd like to turn the call over to Todd McKinnon. Todd?

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Our solid Q2 results were highlighted by strength with large customers and continued spend efficiencies, leading to record profitability and strong cash flow, all of this while facing a challenging macro backdrop.

Identity is security and has become a critical component of an organization's overall technology strategy and defense against today's cyber threat environment. Poor customer experience and technology fragmentation stand in the way of organizations meeting their business imperatives of growing revenues while cutting costs in a secure and compliant manner.

Identity is the technology that solves this challenge, and Okta has the most comprehensive identity platform in the market today. Okta's vision is to free everyone to safely use any technology. We're advancing that vision through incredible product innovation and extending our unmatched portfolio of identity solutions for workforce and customer identity.

Just this past quarter, we launched the general availability of three highly anticipated additions. The first is Identity Threat Protection with Okta AI for workforce customers, which is powered by insights from across an organization's security stack.

Identity Threat Protection continuously detects and responds to identity threats both during and post authentication, amplify security signal sharing and orchestrates remediation actions to support identity threat detection and response strategies. Also for workforce customers, we launched Identity Security Posture Management.

This solution empowers customers to take control of their identity sprawl and harden their security posture through identity-focused risk analysis and prioritized insights that help drive remediation. For the customer identity market, we released Highly Regulated Identity.

This solution delivers financial-grade identity with elevated security, privacy and UX controls for sensitive customer operations beyond log-in. That's tremendous innovation we're delivering to our customers.

We have a strong pipeline of new products and features that we'll talk more about at Oktane, which takes place October 15 to 17. Come join us in Las Vegas for the biggest identity event of the year. You'll hear from Okta's leadership team along with fellow industry experts to discuss the future of identity and why it's not just the first line of defense, but the backbone of a company's holistic security strategy.

We'll also be hosting a Q&A session for analysts and investors at the event, featuring myself; Brett; Eugenio Pace, our President of Business Operations; and Jon Addison, our CRO. As we head into the second half of FY25, the priorities we started the year with remain our top priorities today: security, growth and scale.

I'll take a moment to touch on the first two priorities. On the security front, in addition to delivering world-class identity solutions, Okta is driving change with the Okta Secure Identity Commitment, which is our long-term pledge to lead the industry in the fight against identity attacks.

Since announcing this commitment, we've made significant progress in implementing new security measures and solutions. These investments are raising the bar for identity security and further establishing us as a trusted partner.

On the product security front, we released enhanced Bot Detection features across Customer Identity Cloud. We've reduced credential stuffing attempts and malicious bot traffic by more than 90% for some of our largest customers.

Our unwavering focus on security helps elevate the entire industry in the fight against identity-based attacks. Check out our updated Okta Secure Identity Commitment white paper that was just published on our website today for more details.

What's really interesting is how Okta's Secure Identity Commitment has triggered a new type of conversation with customers and prospects. As we improve ourselves, we help elevate the industry. Organizations are now reaching out to Okta to better understand the enhancements we've made to our own security posture so that they can take these best practices and implement them in their own environments.

These best practices, combined with Okta's products, are helping our customers be more secure and do it faster. These types of conversations are incredible for building long-term partnerships of trust with our customers. Our second priority, reigniting growth, includes several prongs.

The primary initiative is growth through our new and existing product offerings. Okta offers customers a platform of identity solutions for a holistic approach, including passwordless access management, governance, privileged access, threat protection, posture management and customer identity.

A great success story for our new products is the rapid uptake and contribution of Okta Identity Governance. In less than two years, OIG already has over 1,000 customers. Another key growth initiative is deepening our relationships with key channel partners, especially global systems integrators, and leveraging them to enhance our global expansion.

In Q2, the average size of deals conducted through partners was over three times larger than our average direct deal. Furthermore, eight of our top 10 global deals had partner contribution. Today, more than 40% of our revenue mix is generated through indirect channel partners, and we believe we can drive that number meaningfully higher.

To wrap things up, we're really excited about expanding our modern identity platform with new products and features. Identity is security, and Okta has an unmatched array of identity products that are helping to solve critical security needs, drive customer experience and optimize technology infrastructure for our customers.

We're taking the right steps to advance our position as a leader in the identity market while remaining focused on investing for growth while driving spend efficiencies and cash flow. I look forward to seeing many of you at Oktane in Las Vegas in about six weeks.

Now here's Brett to cover the financial commentary and talk about how we're positioned for long-term profitable growth.

Brett Tighe Okta Inc - Chief Financial Officer

Thanks, Todd, and thank you, everyone, for joining us today. Just a quick reminder that most of my typical commentary on the quarterly financials was published on Okta's Investor Relations website at the same time as the press release. I'll cover a few of the financial highlights, but we'll focus my commentary on broader topics before getting into our business outlook.

The challenging macro environment continues to show up in our business in a couple of notable ways. First, it's impacting our mix of new business versus upsells, which remains weighted more towards upsells. And second, organizations are scrutinizing budgets and rationalizing their software spend, resulting in lower MAU assumptions in our Customer Identity business and fewer seats within our Workforce Identity business.

These actions are relatable, because Okta has been going through the same exercise of rationalizing our own software spend over the past two years. We expect this trend to continue in the current economy.

On the positive side, our platform strategy is working. We're selling more products to our new and existing customers, including new products like Okta Identity Governance and Okta Privileged Access, and our data tells us that customers that adopt more products have the highest retention rates.

Before getting into the Q2 financial review, I'll note that similar to the prior two quarters, as we have analyzed our key metrics, we could not attribute a quantifiable impact from the security incident on our Q2 results. And while not quantifiable, the event likely had some level of impact. We will continue to monitor this as we move through the rest of FY25.

Moving on to some financial highlights. We continue to build on the efficiency initiatives that we've been implementing over the past two years. Our Q2 financial performance was highlighted by record operating profitability, including achieving GAAP profitability for the first time.

Cash flow was strong as well. Once again, the primary area of strength was with large customers. Our fastest-growing cohort was \$1 million-plus ACV customers. Global 2000 companies typically have the most challenging identity needs because of the complexity of their infrastructure. This is where Okta shines and is another great proof point of our success with large organizations.

We now count over 40% of the Global 2000 as Okta customers. That's great progress, but it also represents a lot of runway to increase our overall penetration of this group as well as a tremendous opportunity to expand our footprint within these accounts.

We're also seeing continued positive trends around weighted average contract term length for contracts signed in the quarter, which increased year-over-year, particularly with new customers. That's a great sign of customer confidence with Okta.

Now let's turn to our business outlook for Q3 and FY25. As always, we take a prudent approach to forward guidance, and we have not made any changes in our approach. We are factoring in a challenging macro environment consistent with what we've experienced in Q2. We also continue to incorporate some conservatism into our outlook for the remainder of this fiscal year related to potential impacts from last year's security incident.

For the third quarter of FY25, we expect total revenue growth of 11%, current RPO growth of 9% non-GAAP operating margin of 18% and free cash flow margin of approximately 20%. We are raising our outlook across the board for the full year FY25. We now expect total revenue growth of 13%, non-GAAP operating margin of 21% and a free cash flow margin of approximately 23%.

To wrap things up, we're pleased with the progress we've made to drive operational efficiencies. We've demonstrated exceptional leverage in our model over the past two years, and we remain focused on delivering profitable growth for years to come.

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

QUESTIONS AND ANSWERS

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

(Operator Instructions) John DiFucci, Guggenheim.

John DiFucci Guggenheim - Analyst

Thanks, everybody. So listen, I don't normally say this, but like the results look good. I don't say nice job, guys, like on a quarter. But it is -- like you guys are doing a good job, especially given what happened a year ago and how you've done things with the company, focused on things.

Like we all -- we hear it in the field, we see it in the results. But I want to come back to something that's going to make Brett laugh a little bit. I hope it makes him laugh and not cry.

I don't -- the one thing that people don't like about your results is your guidance for CRPO. I know Dave is not going to pick me first ever again. But -- and there's so many things that affect that. You're only one of four companies out of 30 that actually tell people to look at that.

So you're pretty much saying, hey, listen, we're going to go down to single digits over the next year in growth in revenue. And I don't believe that. You don't either. And I -- but I think people look at that and like, oh, well, the CRPO is the leading indicator of what the growth is going to be in revenue going forward.

I just wish you guys would reconsider that. You're only one of four companies that do it; and two out of those other three, they get on the calls every quarter, and they explain why it doesn't work.

So I don't want to sound like a downer here, because I think you did a really good job. I really do. And I think everybody does. But the one thing that makes -- it's a little bit of a numbers game, and I know you don't want to do that, you don't run your business that way. You shouldn't run it that way.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

No, it's really good feedback, John. I really appreciate the feedback. I think when we look at the business, there are lots of really good things going on. There's the success with large enterprises, fastest-growing cohort. There's the new products.

I think we look out and think about guidance and where the opportunity is going in the long term, we're super bullish, and lots of things going right. I think in the medium term or the next quarter or two where -- we have some prudence in there to really lap the security incident.

We've done a lot of work with customers, and we've done a lot of work internally to shore up security and make sure that we take that from a negative to a positive in terms of being proactive about that. But I think when you look at our outlook, we're going to be conservative there in terms of lapping that in terms of guidance.

I think that's just the prudent thing to do. And then the second thing is that the economy is still, consistent with what we've seen in the past few quarters, is still -- there's headwinds and there's challenges. So we want to see that stabilize before we're more confident with raising that guide.

John DiFucci Guggenheim - Analyst

Okay. And I think -- no issues at all with the revenue guide, because you set a precedent. It's that CRPO. But anyway, I'll get --

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

No, I understand. I do appreciate the feedback.

Brett Tighe Okta Inc - Chief Financial Officer

I appreciate the feedback, John. I look forward to our continued debate.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Shrenik Kothari, Baird.

Shrenik Kothari Robert W. Baird & Co., Inc. - Analyst

Good to see when you guys called out the indirect channel partners contributing more than 40%. And just in light of your commentary on the macro, right, because this is stable but still challenging, which is impacting the new business and the upsells. Just curious what specific, like, say, initiatives are in place to deepen the relationship with the GSIs, right?

You did mention about it, Todd. And can you just share like how the GSI motion is taking place in terms of how you guys are engaging the number of deals, deal sizes? Any insight into cycle lens around those deals and those metrics? That would be great.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Partners overall are really important to us. We've talked about it in the last few calls about the investments and the focus we've had on the partner program. We have our Elevate Partner Program we launched a few quarters ago, which is all about making sure we focus our channel partners in terms of which ones we're prioritizing and making sure that they can -- they're equipped to do end-to-end servicing, presales, post sales, and on and on.

So the stats on the partner overall are really good. We have about 40% of our business is -- goes through partners in terms of billing on their paper, which is good. We think we can do better than that. We think our involvement in the ecosystem warrants that, and we're pushing hard to make that happen.

You called out -- there's other parts of the partner program, particularly these ISVs, ISV partnerships, where one of our security ISVs, particularly, goes in. One of our most important workforce deals this quarter was a Fortune 500 transportation company, and

that deal was sourced through a security ISV partner.

So they're in that deal saying, we're -- this customer wants to go zero trust, wants to have a broad security suite plus a broad identity suite, that ISV brings us in. That's a great partnership there. We have MSPs we can talk about.

But the thing you highlight that I'm most excited about is the GSIs. So it's really -- we're really starting to get strong momentum with global systems integrators, and I think they're seeing the customers' demand help modernizing identity and pivoting their technical infrastructures to have a better identity story.

And then when those GSIs look around the market, what they see is they see two visions on the market. They see platform companies like Microsoft that want you to buy everything from them and you're really locking the customer into their stack, and then you see independent neutral identity platforms.

And in that world, you see really legacy software companies that are -- have their own challenges, and then you see Okta, and it's a pretty stark contrast. And I think that's why those GSIs are leaning in. It's something I've personally been working on and we have a high priority on, and I'm excited to make progress and share more actually quantitative progress over the next several quarters.

Brett Tighe Okta Inc - Chief Financial Officer

Yes. I would just add that not just Todd working on it, it's the entire management team. A good example would be one of those GSIs coming to our executive leadership offsite actually a couple of weeks ago to go spend time with us, be able to align better, be able to say, hey, this is where we -- how we can partner better.

We obviously have teams dedicated to each one of these partners. And so it's really us diving in deep and trying to go through the tactical of, okay, you're going to do this, we're going to do that, how can we help each other, both make each other a bunch of money?

And so that's -- I mean, we're giving the example for GSIs, but that exists in a lot of the areas that Todd was just talking about across the business. And so we're just -- we're diving deeper and investing the time and energy and showing the partner community that we're really serious about partnering together and driving this opportunity forward together.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Yes. And hopefully -- I know a lot of the folks on the call on the notes I've read are picking up with a better partner sentiment about Okta just in terms of our ability to effectively work with Okta and partner effectively with the community, and that's something very good to hear. And we continue to focus on that to make that even better and make the ecosystem an even stronger supporter of Okta.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Next up, we have Annick Baumann from Jefferies.

Annick Baumann Jefferies LLC - Analyst

I'm on for Joe Gallo today. I just wanted to ask, where are you in your sales enablement journey as it relates to SIEM, specifically? Any key milestones to call out? And how did that impact performance this quarter?

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

I think it's -- we're still working hard on that. It's very important. I think it's getting better, but it's still not where it needs to be, which basically means we could still do better in sales productivity. And that's really -- it's overall -- it's really, when I say sales productivity, that's the end result of the full go-to-market from marketing to conversion to sales prosecution.

So I think we can still get better in terms of productivity there. And we're seeing -- like it's turning in the right direction, but we're still not at the levels I think we can get to in terms of particularly driving growth and also driving efficiency in the overall business.

Brett Tighe Okta Inc - Chief Financial Officer

Yes. The one metric that we have tracked for a long time on that is participation by the field. In SIEM deals, both from a closed won deals and also a pipeline, the participation in the pipeline, we obviously track it by workforce as well. So we track it by product to see how we're trending.

It's something we've talked about for several quarters. That number continues to go up into the right. But just like Todd said, it's not exactly where we want it to be. We feel like we can execute better in this market.

It's a massive market, and we're very optimistic in the long term, that these changes that we've been implementing, whether it be more enablement, the way we're organized from an hunter-farmer perspective or specialization, you could -- we feel like that's going to help us in the long run, despite the macro headwinds that we've been facing here in the short term.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Great. Madeline Brooks, BofA.

Madeline Brooks BofA Global Research - Analyst

Great. Two quick ones for me. The first, Brett, was more on your rationalization commentary. I guess I understand the SIEM side, but on the workforce side, we've been hearing about a lot of breaches in the news, and pretty big notable ones like Snowflake, AT&T use them, not just from PAM security but just basic identity security, not having MFA-enabled, right?

So I guess I'm struggling a little bit to see why companies would rationalize something like workforce identity spend. So if you could just give us a little bit more color in terms of maybe where they're rationalizing or also, too, if the market maybe just more mature and saturated. And then I have one more follow-up question after that.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Brett, if I could jump in real quick. First of all, one thing that's interesting is that if you look at overall breaches, 85% of them involve some compromised identity, which really is staggering when you think about it.

So if a company or organization can shore up their identity security, they're going to go a very long way toward potentially solving almost all of their breaches, which is pretty interesting. I think one of the things in the past that's been a challenge is that modernizing identity has been a forklift upgrade.

You had to modernize the whole thing. And that was certainly true with legacy identity technologies. And I think Okta, over the years, has made that adding on something like multifactor authentication is easier, but it's still too much of a heavy lift to -- for organizations to go through.

And so one of the things with these new products we have, like Identity Governance or Identity Security Posture Management or Privileged Access is you -- basically, it's a shorter time to that concrete security ROI. Security ROI is always a little bit tricky because the -- if you have no breach, is there ROI?

It's like the return is sometimes nothing happens, which is a little bit challenging to justify sometimes, to make a risk-based decision. But these new products like, for example, Identity Security Posture Management.

Right when you install this product, it tells you your security vulnerabilities and your identity stack across multiple systems and identity providers. So that's a very quick time to -- from buying the product to seeing risk reduction even in the demonstration cycle.

And I think that's one of the things about our product portfolio that will drive growth, even though in the past we've seen security breaches happening more and more, and identity-based security breaches happening more and more, yet it hasn't really changed the speed and the urgency, which companies are upgrading their entire identity stacks like you would expect they would.

Brett Tighe Okta Inc - Chief Financial Officer

And just more on the rationalization point. What I'm talking about really is around if you're going to go do an upsell, and originally, let's say, two, three years ago, this company had aspirations of hiring another 15% of people, right?

They go and buy 15% more licenses, and you'd see that reflected in net retention, current RPO, revenue, all that good stuff. Right now, people's expectations around hiring is not 15% higher, right? So we're not getting that upsell like we used to.

So yes, they're not declining, but they're just not buying as much as they have historically done mid-contract or at renewal, and so that's really what we're saying when I say rationalizing the licenses on the workforce side and also on the monthly active user side on the customer identity side as well.

So it just feels very macro-oriented that people are a little bit more cautious at this point about their contractual agreements and not getting too much out over their skis given the uncertainty out there with the economy.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Yes, and a couple of years ago, we think this customer data project is going to grow 15%, we'll buy 30% more amounts. Now it's -- we think it might grow 10%, so we'll buy 5% more and see if it grows 10%, and see if we really need those. It's a little bit of a different world.

Madeline Brooks BofA Global Research - Analyst

Got it. And then maybe just one more quick one to, changing gears, federal. And I agree with John's comments, right, we all hear really positive things in the channel, so I guess I'm just trying to pair the CRPO guide and outlook for next year versus what happened this quarter.

Was this more of an outsized federal quarter? Is that what those numbers are pointing to? Or which federal business more normalized what we've seen previously?

Brett Tighe Okta Inc - Chief Financial Officer

Federal is definitely more normalized from what we've seen. It's not like an outsized impact, thus impacting current RPO. I think the one thing to keep in mind with us, I think with some other companies, current RPO, average duration inside current RPO, can fluctuate pretty heavily.

Ours does -- it can a little bit, but not very much. And I think that's some of the weakness that others talk about. But ultimately, when we think about the guidance, there's really two factors, like Todd was talking about earlier, which is the macro, which is what we just talked about with upsells just not being there like they used to be on the license count, MAU count, new logos being more challenging.

Although we did have a better net new customers in the quarter, it's still not as high as we would like it to be, and we do believe it's pressured by the macro. And then the second component is the security incident.

Despite the fact that we haven't found any quantifiable evidence that our financials have been impacted or performance has been impacted by the security incident, we're still being prudent about that as we go through the back half of the year.

One thing to keep in mind, as Todd was talking about earlier, right? Security remains a top priority for us from an investment perspective. We've made a ton of progress towards becoming one of the -- our goal of becoming one of the world's largest -- world's most secure companies.

But hopefully, today, you saw we updated the Okta Secure Identity Commitment, talked about what we've done over the last 90 days and then what we're going to do out into the future. We're putting a lot of resource into that because we view that as a very high importance strategic initiative.

Madeline Brooks BofA Global Research - Analyst

To drive growth?

Brett Tighe Okta Inc - Chief Financial Officer

Absolutely. Drive growth, absolutely just be one of the most secure companies out there. That's -- we're obviously an identity company that -- and security is really important, obviously, as an offshoot of identity. So we clearly want to be one of the most -- one of the world's most secure companies there.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Okay. Charlotte Bedick, JPMorgan.

Charlotte Bedick JPMorgan - Analyst

I'm on for Brian Essex. Quick questions. I know you spoke about strength towards enterprise. Can you speak about, I guess, how -- what you're seeing at SMB in the market as (inaudible) prior quarters expectations going forward?

Brett Tighe Okta Inc - Chief Financial Officer

I can take that one. SMB continues to be impacted by the macro. If you look at net retention, for example, the enterprise net retention rate is higher than the overall rate, and SMB is below, and we have seen that trend over the last several quarters.

As you've heard us talk about, our enterprise is stronger, SMB has been weaker, and we believe that's directly related to the macro embedded in the guidance here today. We continue to believe the macro -- well, it's been stable for several quarters now.

We believe it stays in this environment, the macro stays the same over the back half, and that's what is embedded in the guidance, all of our commentary, here today.

Charlotte Bedick JPMorgan - Analyst

And with that, do you expect like net dollar retention to stay pretty much the level at where it is?

Brett Tighe Okta Inc - Chief Financial Officer

Right now -- well, first, let's start with where the most important factor is on net retention, which is gross retention. That remains healthy. And then in Q2, really Q2, the decline, 111% down to 110%. That's on the back of the seat upsells that are not there, like we've talked about a couple of times on this call.

We do expect that trend to continue into the back half, and we do see a little pressure on the net retention. We see it ticking down for those reasons, the macro reasons we talked about and also SMB putting some pressure on the net retention rate in total.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Joe Vandrick, Scotiabank.

William Vandrick Scotiabank - Analyst

All right. This is Joe on for Patrick Colville. So congrats on reaching GAAP profitability. Should we expect that to be the new normal going forward in fiscal '25 and fiscal '26? And then it looks like sales and marketing declined in the quarter. Is that going to be a continued source of leverage this year?

Brett Tighe Okta Inc - Chief Financial Officer

So the first question around GAAP profitability, and we don't guide GAAP profitability, but we're very pleased with the overall results of becoming GAAP profitable. Frankly, it's a result of all the work we've been doing over the last several years around rationalizing software spend, rationalizing costs, real estate, moving people into lower cost regions to be able to allow us to invest back into other areas like security.

You've heard us talk about security a lot. We've been able to improve these margins while also putting a lot of money into security to become one of those great security companies, one of the world's most secured companies out there.

And so as we continue to go forward, I don't have any expectations one way or the other in terms of GAAP in terms of guidance, but we are continuing to improve margins. As you can see by the guidance today, we increased our expectations for FY25.

In terms of sales and marketing as a percentage of revenue, yes, that has definitely created some leverage for us as part of getting to GAAP profitability and as part of the margin improvements we've seen. Right now, the way we look at it is we want to be able to invest correctly to be able to drive growth, but doing also in a responsible way.

So driving that profitable growth as best we can. So pleased with the progress we've made on both margins and also sales and marketing as a percentage of revenue, and we'll execute against our targets for the balance of the year.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Yes. I'll just add, the way we think about it at a high level is we want to plan the company and target in terms of our planning and investment assumptions, Rule of 40. And then within that, it's -- we prioritize growth. One of our top priorities is reigniting growth.

So we think about how we can invest in that framework to reaccelerate growth. That's important. And then we're always thinking about stock-based compensation and shareholder dilution, and that's a big driver of the difference between GAAP and non-GAAP in our business. So while we don't -- the GAAP profitability is the end result. It's not the primary thing. We're planning our framework over time.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Okay. Manraj Bevli, Bernstein.

Manraj Singh Bevli Bernstein Institutional Services LLC - Analyst

This is Manraj on for Peter Weed from Bernstein. Firstly, congrats on a great quarter. But a quick question here. Wanted to be try and impute the average land ARR per new customer, right? And it seems that, that's growing, and it's growing pretty quick despite challenging macro. So firstly, I just wanted to understand, is the tip of the spear or the land product changing? What is causing that land ARR to expand, number one? And I have a follow-up question, sir.

Brett Tighe Okta Inc - Chief Financial Officer

Yes. In terms of the dynamics, I'm not sure the math of what you're doing, but the way we run the company here is really land and expand. So we're not as worried about the first land. We're really focused on getting customers in, making them successful and driving value for them, and then ultimately, they add licenses, they add products over time. That's why we've had such strong NRR over the years. And really, that's really the way we operate the company. So I can't comment one way or the other on your -- the math you're doing. But ultimately, our goal is to get as many customers, drive success for them, and ultimately, they will become long-term customers for us.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Just to give you some -- just to give you more insight on how we think about things internally. The large enterprise is -- the success there is very encouraging. It's a big part of our future. 40% of the Global 2000 now has some Okta purchase somewhere in the organization. And those may have been bigger than other SMB ones just because they're big organizations with big IT budgets, but the terms of the potential of what they could be, it's just scratching the surface. So I mentioned the win we had in the quarter of 80,000 employees at a Fortune 500 transportation company. That deal could get materially bigger with selling them customer identity and selling them other capabilities within the product. So I would say that two things can be true: deals can be getting bigger on land as we sell to large enterprise, and we could have even much more upsell opportunity because the overall potential in those big accounts is so big.

Manraj Singh Bevli Bernstein Institutional Services LLC - Analyst

Got it. And a quick one. Probably people asked about this before, but we saw acceleration in RPO recently, right, yet to see that trough in CRPO. When can we see acceleration of CRPO as well?

Brett Tighe Okta Inc - Chief Financial Officer

We're excited about the total RPO acceleration, right? I mean we've seen it go from below the growth of current RPO to above the growth of current RPO, and that's really on the back of what Todd has been talking about, which is longer contract duration, primarily because we're doing deals with the enterprise and strategic and large organizations. And typically, they buy for longer term longer term than the SMBs, which they're usually a little shorter. And so do you see the overall effect in the total RPO numbers. You can see it in the numbers we talked about earlier, about the Global 2K. We're now greater than 40% of the Global 2K. That's up from 33% a of the Global 2K less than two years ago. And like Todd was saying, a lot of those are starter deals in that Global 2K. There's a lot of room to run. As we solve more and more identity use cases inside those accounts, let alone all the other 60% that we don't have right now, there's a lot of opportunity. And so we're pleased with the outcomes in terms of the contract duration. This is the third quarter in a row we've seen a good trend of contract duration getting a little bit longer, and you see it in the results here from a total RPO perspective.

Manraj Singh Bevli Bernstein Institutional Services LLC - Analyst

So the total average contract duration is inching up.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Mark Cash, Raymond James.

Mark Cash Raymond James - Analyst

This is Mark on for Adam. Yes. So Todd, you've been talking about the platform consolidation opportunity across workforce, customer, IGA for a while now.

Now considering potential concerns some organizations may have with consolidating opportunity across IT (inaudible), do you think this concern plays into the identity space? Or do you view Okta's consolidation opportunity still fully intact?

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Yes. I think I think it's a really good question, because when I talk to customers, they're thinking about -- they know that they have thousands and thousands of vendors. I mean even a small, medium-sized company has a thousand vendors across their entire

technology stack.

So they know they want to standardize in some areas on some dimension. And -- but they also know that they can't go too far down into too few vendors, because that would leave to lock-in and lack of choice, et cetera, et cetera.

So the case we're making is that one of the right dimensions is identity, and that gives you good integration across your identity stack. It improves security outcomes. It decreases costs, it increases revenue, et cetera, et cetera.

I think the reliability thing and the risk associated with a single vendor is a factor that people think about, and I think it comes down to how the products are architected, how the backup plans are and what are the fallbacks and the demonstrated record of reliability and how you put that together over the years.

And Okta scores well on that, scores well on our history there. I think if you asked 20 CIOs and CSOs to rate Okta on security and on reliability, we want the answer to that to be industry-defining on both.

And that's why we're focused on maintaining our reliability and our robustness and our trust on that regard and making sure we put all these investments and making sure that we can confidently say that we're truly industry-leading and world class on all things security.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Trevor Rambo, BTIG.

Trevor Rambo BTIG - Analyst

This is Trevor on for Gray Powell of BTIG. So maybe switching back to products. What have you guys been doing to help train up the sales reps on the PAM product? Because I know you often target the different buying center than your core identity access management.

I'm just trying to parse out your thinking about the potential ramp in PAM versus OIG. I know you guys said OIG is now at 1,000 customers, which is great. So maybe some more color on how PAM is going and maybe also some -- some more color on how initial demand for ITDR is going as well would be helpful.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

On PAM, it seems to be playing out similar to how -- OIG is a little different. So I don't think it's playing out exactly like OIG in terms of how the enablement and how the sales team is taking it up. OIG was very adjacent and a very natural thing for the salespeople to take up and take to market.

I think PAM reminds me more of many years ago when we first introduced multi-factor authentication. Multi-factor authentication, some of you -- it's been a long time ago, so you might not remember. We didn't have it at first, then we started selling it as part of Okta.

And it was really our first true security offering. And the way that the sales team started selling it, which would make sense, is they sold it as really a bundle or a full capability, identity plus multifactor. They didn't go out there and try to sell it like it was an independent multi-factor security solution.

It was like we're going to sell you the whole thing. We're going to sell the directory. We're going to say the user management, and we're going to sell the multi-factor authentication. So I see PAM playing out the same way.

If you look at this quarter, I mentioned this deal with this Global 2000 -- or Fortune 500 transportation company. This was a deal that had PAM in it. So it was a new customer, it was from an ISV and a lot of exciting things about it.

It was a new customer sourced through an ISV, and it was -- it included both OIG and PAM and the workforce core single sign-on and FastPass multi-factor authentication. So that's pretty compelling, because that rep and that sales team sold it as part of the complete solution, which is where we're differentiated, because it's harder for us as a newer entrant in PAM to say, we're going to go down the list of Gartner things about a PAM solution.

It's much -- we have a much better right to win when we say, hey, here's why it's so much better, that it's integrated with governance, it's integrated with your core access management, the platform you know and love, et cetera.

So I see it playing out the same way. We're very optimistic about it. It's -- both from just a pure size of the market and ARR, but also as a compelling differentiation -- making the whole workforce suite even more compellingly differentiated.

Trevor Rambo BTIG - Analyst

Awesome. Anything else on the ITDR?

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Yes. I think ITDR, Identity Threat Detection and Response is the industry term for it. Our product in there is -- we're very excited about. It's Identity Threat Protection. We call it ITP. And it's -- this product is -- think of it as -- it's like advanced multi-factor authentication, but times 10.

It has integrations, deep integrations, with the entire security ecosystem from CrowdStrike, to Zscaler to Netskope to Palo Alto Networks. And it doesn't just work at log-in. It continuously detects threats after log-in.

So you log-in and you're on your way, working on your apps, and if Palo Alto or CrowdStrike detect an issue, you get malware, that actually -- our product detects that signal and logs you out of all your apps. Even if you -- even -- you weren't about to log-in, you'd already logged in.

So like during the session, it kills a session, which is very powerful. And so this is, I would say, very -- it's a very natural adjacency to advanced multifactor authentication, and it's like the next upsell from there. Now I think the reality of the world is that too many companies are just getting to multifactor authentication and phishing-resistant biometric authenticator.

So I think if there's going to be something that impedes the ramp of that, it would be just the maturity of organizations. But one of the most exciting things in Q2 is that some of the wins for that product, Identity Threat Protection, were well-known security companies.

So I mean, well-known security companies, like they are going to be the most advanced at security, and they were buying that product because they were so excited about the enhanced production it provides.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Brian Wilcox, Cleveland.

Brian Wilcox Cleveland - Analyst

Thanks. Brian on for Ben Bollin today. Brett, you had mentioned the new logos, maybe not exactly where you would like them to be and largely attributable to the macro. What gives you confidence that it's the macro and it's not the security incident from last year that's pressuring new logos?

Brett Tighe Okta Inc - Chief Financial Officer

Thank you for the question, Brian. Look, we look at all the key indicators, and we can't see anything associated with -- a quantifiable note in the math associated with the security incident. We've said that for the last three quarters.

And so for us, we look at all the math, look at all the quant, and it does point to macro. I mean there's a bunch of -- there's a few indicators that show that. We've talked about upsells. We look at win rates, we look at [pipe create], we look at a lot of different things.

And frankly, it all points to macro rather than the security incident. Now with that said, we're obviously keeping a very close eye on it. And if there's something that does pop up, we will definitely inform you guys. But in three quarters, we can't seem to find it from a

new logo perspective.

And yes, we do want to do better than 200 net new in the quarter. I mean, yes, it's an improvement, but we believe we can grow much faster than this. And that's why we've talked to all of you about these three main areas of growth initiatives, whether it be the partner side that we talked about already, the new products that we talked about already here today, specialization in the field with the hunter-farmer model that we've run for now two quarters.

We believe those are all long-term growth accretive. Obviously, we're facing a challenging macro environment, and it's been that way for several quarters now.

Brian Wilcox Cleveland - Analyst

Great. One follow-up, if I could. Just on the -- if you back out the headwinds from seats not expanding, not as many -- as much hiring or adding as many customers, like -- can you comment on what the pricing environment looks like with renewals and the ability to take price? Are customers pushing back on price increases?

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

The pricing environment really hasn't changed on either side, so the real headwind is from the license counts that we've been talking about on both workforce and customer identity side.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

We have one more question from Michael Richards at RBC.

Michael Steven Richards RBC Capital Markets - Analyst

On for Matt Hedberg. Maybe going back to the hunter-farmer model. Just curious on how that's trended relative to your expectations, and is there any expectation that this will move to other parts of the business in terms of different customer segments other than the SMB?

Brett Tighe Okta Inc - Chief Financial Officer

Yes. I mean, right now, it's a little too early to tell. I mean we're only two quarters in. And as you guys know, the first quarter's -- there's a lot of change in the first quarter, with new territories and everybody getting new teams and patches and all that stuff.

So it's only really been a couple of quarters and probably even a little less than that really functionally how the hunter-farmer has been modeling -- has been operating. But we are optimistic about it in the long term. We believe specialization is something that will help us.

I mean you just heard Todd talk about over the length of this call how many new products we have. right? Also, how big our customer base is, 19,300. We realize that specialization is important, and we believe it's one of those drivers of long-term growth.

And yes, we'll have more information as we get through the year on how successful it's been, but we think it's going to take another couple of quarters at this point.

Dave Gennarelli Okta Inc - Senior Vice President, Investor Relations

Great. Well, I don't see any more hands raised. So with that, before you go, I just want to let you know that in addition to hosting several on-site and virtual bus tours this quarter, we'll be attending the Citi Conference in New York on September 5; the Goldman Sachs Conference in San Francisco on September 10; the Piper Conference in Nashville, also on September 10; the JPMorgan Software Forum in Napa on October 8; and of course, as Todd mentioned, we've got the Oktane Conference in Las Vegas, October

15 to 17.

So we hope to see you at one of those events. Thanks, everyone.

Todd McKinnon Okta Inc - Chairperson of the Board, Chief Executive Officer, Co-Founder

Thanks, everyone.

DISCLAIMER

The London Stock Exchange Group and its affiliates (collectively, "LSEG") reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes. No content may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of LSEG. The content shall not be used for any unlawful or unauthorized purposes. LSEG does not guarantee the accuracy, completeness, timeliness or availability of the content. LSEG is not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the content. In no event shall LSEG be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the content even if advised of the possibility of such damages.

In the conference calls upon which Summaries are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

LSEG assumes no obligation to update the content following publication in any form or format. The content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. LSEG does not act as a fiduciary or an investment advisor except where registered as such.

THE INFORMATION CONTAINED IN TRANSCRIPT SUMMARIES REFLECTS LSEG'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES LSEG OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY SUMMARY. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

Copyright ©2024 LSEG. All Rights Reserved.