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PRESENTATION

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

(presentation)

Good afternoon and welcome to Okta's Third Quarter Fiscal '21 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; Bill Losch, our Chief Financial Officer; and Frederic Kerrest, our Executive Vice Chairman, Chief Operating Officer and Co-Founder.

Today's meeting will include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to statements regarding our financial outlook and market positioning. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Forward-looking statements represent our management's beliefs and assumptions only as of the date made. Information on the factors that could affect the company's financial results is included in its filings with the SEC from time to time including the section titled Risk Factors in its 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. A reconciliation between GAAP and non-GAAP financial measures and a discussion of the limitations of using non-GAAP measures versus their closest GAAP equivalents is available in our earnings release. You can also find more detailed information in our supplemental financial materials, which include trended financial statements and key metrics posted on our Investor Relations website.

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

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

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

Thanks, Dave. And thanks, everyone, for joining us today. I hope that you and your families have remained safe and healthy since the last time we spoke.

I'm pleased to report that we delivered another strong quarter of financial results. In the third quarter, we demonstrated continued strength with total remaining performance obligations, or RPO, growing 53%. Total revenue grew 42%. Subscription revenue grew 43%, and we generated record quarterly cash flows.

Okta has remained 100% remote since mid-March, and we continue to execute at a high level. We're fortunate that the nature of Okta's

business allows us to operate successfully in this dynamic work environment. We're also proud of the fact that our solutions help our over 9,000 customers securely connect their distributed workforces and strengthen the security and identity posture of their websites and applications.

The 3 mega trends that have been driving our business for the past several years, the adoption of cloud and hybrid IT, digital transformation and Zero Trust security are being accelerated. Organizations are being forced to evolve their digital strategy to navigate through the pandemic, while their remote work environments remain a critical part of their business.

We continue to have success with growing our base of large enterprise customers. In Q3, we added nearly 100 customers with an annual contract value greater than $100,000. And once again, over half of these additions were from new customers. Large enterprise customers now contribute 80% of our total annual contract value. The total number of $100,000-plus customers now stands at 1,780, an increase of 34%, and we're seeing our base of customers with bigger ACV expand even faster. For example, our customers with an ACV greater than $500,000 grew over 50% to 320 customers.

Here are just a few notable examples of large enterprise wins and upsells, which come from a wide range of industries. DXC Technology, a Fortune 500 IT services company serving 6,000 private and public sector clients, became a new Okta workforce customer in Q3. DXC has a complex hybrid IT infrastructure and looked to Okta to help the organization reduce costs and improve operational efficiency for its entire workforce by standardizing on a single identity provider while replacing multiple existing legacy systems. DXC plans to migrate its applications to Okta to provide a better user experience with secure single sign-on, while Okta Access Gateway will help securely integrate on-prem applications with its cloud environment.

The state of Iowa was an exciting Q3 workforce and customer identity win, where Okta was selected to help accelerate the state's digital transformation initiatives and COVID-19 response. As the state replaces legacy systems with best-of-breed tools, it saw a secure cloud-based identity solution for its nearly 20,000 employees. Okta's prebuilt integrations helped the state move quickly. Iowa has successfully deployed Okta for its cloud-based applications and will connect its legacy on-prem applications using Okta Access Gateway. By having simplified, secure access, state employees are better able to focus their time and resources on supporting their citizens. The state also plans to deploy Okta customer identity to serve its 3 million citizens, providing seamless access to all state agencies with a single ID and password.

We also had a fantastic upsell transaction with a Global 1000 international auto manufacturer that has accelerated its move to the cloud by expanding its deployment of Okta with both workforce and customer identity solutions. The customer has a complex legacy system and is aiming to enhance its cloud security operations to better protect its business, applications and infrastructure. Okta's always-on capability with an SLA of 99.99% was key to help deliver a solution capable of scale.

Further evidence of our progress with large enterprise companies is demonstrated by looking at the top 25 contracts we booked in Q3 by total contract value. This includes both new and upsell contracts. All 25 were over $1 million, and 6 were over $5 million. What's more, the average contract size of our top 10 new customers increased more than 60% when compared to Q3 last year. While that's great progress, we believe that we are just getting started, and we still have a significant opportunity to further expand our business with these large organizations.

These wins are a key component of the network effects that help drive our platform forward. Customers are turning to Okta because of our neutrality, extensive catalog of integrations and breadth of products. This in turn generates more and more data insights that can be harnessed to build better products that make our customers more successful. We believe this network effect flywheel is now at scale and provides a sustainable competitive advantage for continued market leadership.

Speaking of building new products, we made several announcements around product and feature innovations at our second annual Okta Showcase event in October. The event itself was a huge success, with viewership increasing nearly 4x over last year. The innovations we announced helped further advance the leadership position of Okta Identity Cloud as a modern identity platform. There was a particular emphasis on enhancements we're making to our CIAM solutions and how we're more tightly integrating into every customer system at every layer of the technology stack. I'll highlight a few of them now.

The first is Customer Identity Workflows, which automates complex identity processes by connecting to every part of the customer experience, such as user registration and progressive profile development, and enables enterprises to make identity actions completely programmable without having to write code. Development teams will use workflows to unlock greater agility and provide greater customization.

We also announced an SDK and API for our Devices Platform Service. This embeddable developer tooling simplifies and secures passwordless login in omni-channel customer experiences. In short, it's now super easy for developers to customize many things, including creating a single integration to embed MFA directly into their app. This will simplify the user experience while increasing their overall security posture.

Lastly, we highlighted several upgrades to Advanced Server Access, or ASA, including enhancements that speed up the deployment of cloud infrastructure and automate manual provisioning and especially deprovisioning of developer accounts and production environments. One customer that benefited from the enhancements is Zoom. With compliance and security as a priority, Zoom significantly expanded its deployment of ASA. This expansion is a testament to the success of their initial deployment of ASA earlier this year, which helped to provide added security, seamless user access and simplified privilege management at scale to its production and staging servers.

Expanding our footprint internationally is a long-term priority. Early in Q3, we announced another key component of our global expansion with the opening of our new office in Tokyo and the hiring of our first country manager in Japan, Takashi Watanabe. With a strong base of customers like Hitachi and NTT DATA and a growing local team, Okta is making a long-term strategic investment in the dynamic Japanese enterprise technology market.

Speaking of new hires, despite the COVID environment, we continue to attract world-class talent to Okta. In addition to growing our overall head count by over 20%, we announced 2 new senior leaders in the third quarter. Susan St. Ledger will be joining Okta as President of Worldwide Field Operations on February 1. Susan brings nearly 3 decades of experience of building and transforming high-growth software and cloud businesses.

We also announced our new CIO, Alvina Antar, who brings more than 20 years of experience at high-performing IT organizations at both Fortune 50 companies and high-growth startups. We couldn't be more excited to have these experienced business leaders join Okta to help lead us to continued growth and success.

Before wrapping things up, I want to point out to this audience that we'll be releasing our seventh edition of our Businesses @ Work report on January 28. Using data from the Okta Integration Network, this report takes an in-depth look into how organizations and people work today. I know investors and analysts love this report because it's been great at revealing trends and the fastest growing apps in several industries well before they become more commonplace.

In summary, it was another very strong quarter for us, driven by continued execution and market momentum. We are broadening and expanding our competitive moat and have maintained very high competitive win rates whether it's against legacy incumbents, big platform players or other point products. We win because we have the most modern and extensive cloud-based platform. Our customers value our independence and neutrality, and our Okta Integration Network is unmatched in the industry. We're also in the enviable position of being in a market that is coming toward us in the cloud. We're proud of the success we've achieved, and we're confident in our ability to maintain this high level of execution because we are just scratching the surface of the massive market opportunity.

Thanks again for your time. And I'd now like to turn the call over to Bill to walk through our financial results. Bill?

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

Thanks, Todd, and thank you to everyone for joining us. As a reminder, we have posted an earnings presentation that contains our detailed financial results on our Investor Relations website. I think you'll find it to be a useful summary, and as such, I will only cover some of the highlights in my commentary this afternoon. We had a strong third quarter across the board, and I'll now touch on some of

the highlights and then go into our outlook for Q4 and the full year.

Turning to our Q3 results. Total revenue increased 42%, driven by a 43% increase in subscription revenue. Subscription revenue represented 95% of our total revenue. RPO or backlog, which for us is contracted subscription revenue both billed and unbilled but has not yet been recognized, grew 53% to $1.58 billion. Current RPO, which represents subscription revenue we expect to recognize over the next 12 months, also experienced strong growth of 46%. Year-over-year growth in current RPO is the more meaningful metric when viewed along with subscription revenue and billings growth.

Total and current calculated billings grew 44% and 42%, respectively. The strength in billings was driven by both new and existing customers and beneficial invoice timing. We expect Q3's beneficial invoice timing to be a modest headwind to fourth quarter billings growth. As I mentioned before, billings can be subject to variability caused by invoice dynamics including timing, which is why current RPO is an important metric as it eliminates these types of variances, which have no impact on revenues.

Turning to retention. Our dollar-based net retention rate for the trailing 12-month period was 123%, a 2 point increase from last quarter. We have not experienced any degradation in gross retention rates during the pandemic and continue to experience strength with customer upsells, particularly with our enterprise customers. Retention rate may fluctuate from quarter to quarter, and in the current environment, it's possible that fluctuations in retention rates may be more pronounced.

Before turning to expense items and profitability, I would like to point out that I will be discussing non-GAAP results going forward. Now looking at operating expenses. Total operating expenses grew 30%, which is higher than forecasted as we increased investment to support our growth plans. The growth in expenses was partially offset by reduced travel and office-related expenses. And while we've been successful at hiring and retaining talent, hiring was more back-end loaded in the quarter. Headcount increased 23% to just over 2,600, with the increase primarily in our go-to-market and engineering teams as we continued to invest in strategic initiatives.

We achieved profitability again in the third quarter, driven by our stronger-than-expected revenue performance. It's important to keep in mind that expenses will return to a more normalized run rate when the business environment begins to normalize. We also look to increase our investments in fueling our business globally, which includes increasing head count within sales and marketing as well as R&D.

We generated record cash flow from operations and free cash flow of $43 million and $42 million, respectively, which yielded a 19.1% free cash flow margin. Free cash flow was driven by strong billings and collections during the quarter. Collections have continued to be stronger than expected during the pandemic. We ended the third quarter with a strong balance sheet anchored by $2.5 billion in cash, cash equivalents and short-term investments.

Moving on to our business outlook. While there is some continued uncertainty given the pandemic environment, we remain optimistic about the demand for our products and are raising our full year fiscal year '21 outlook based on our strong third quarter results. Consistent with our approach throughout this year, our bias is to reinvest upside in investments to continue innovation of our platform, fuel growth and further enhance our competitive positioning, but we will only do so with opportunities that we believe have a meaningful return. We also expect to see continued variability in cash flow margins due to ongoing fluctuations in working capital, the growth in our enterprise business and seasonal factors.

For the fourth quarter of fiscal 2021, we expect total revenue of $221 million to $222 million, representing a growth rate of 32% to 33% year-over-year; non-GAAP operating loss of $2 million to $1 million; and non-GAAP net loss per share of $0.02 to $0.01, assuming weighted shares outstanding of approximately 131 million.

For the full year fiscal 2021, we now expect total revenue of $822 million to $823 million, representing a growth rate of 40% year-over-year; non-GAAP operating loss of $2.3 million to $1.3 million; and non-GAAP diluted net income per share of $0.04 to $0.05, assuming weighted shares outstanding of approximately 143 million. The higher share count reflects the shift to profitability for the full year.

The strength of our business gives us confidence in our ability to execute. While we are in the early phases of financial planning, we would like to provide a preliminary view of our revenue outlook for next year. We currently estimate total revenue to exceed the milestone of $1 billion for fiscal year 2022 and be in the range of $1.06 billion to $1.07 billion. Although there is a continued macro uncertainty, we remain confident that the factors that are driving our business today will continue to drive our business well into the future. All things considered, we remain confident in our ability to execute against our long-term model.

In summary, we are pleased with our third quarter performance. The accelerated tailwinds of cloud, digital transformation and security position us well to achieve our long-term financial targets. We plan to further capitalize on our market leadership position and the tremendous market opportunity ahead of us. We look forward to closing out the fiscal year on a strong note.

With that, I'll turn it back over to Todd.

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

Before we go to Q&A, I wanted to discuss the announcement of Bill's retirement next year and the appointment of our Board member and Audit Committee Chair, Mike Kourey, to succeed him. Bill has had an incredibly successful career, and I couldn't be happier for him to be able to spend more time with his family and friends and his favorite charitable organizations. Selfishly, I'm really bummed because Bill has been such an integral part of growing Okta over the past 7-plus years. Back when we were a young start-up and had less than $20 million in revenue, we were incredibly fortunate to land someone with Bill's talent and expertise. We're grateful that he's going to stay on through the announcement of our fourth quarter results and 10-K filing in early March and then as an adviser through the first quarter of next year. We greatly appreciate everything he's done for Okta and wish him all the best in his retirement next year.

We're also excited to have a person of Mike Kourey's caliber take the CFO reins. Mike has been an invaluable Okta Board member and Head of our Audit Committee over the past 5 years and is intimately familiar with our business and strategy, so we know he'll be able to hit the ground running. Over the past 25-plus years, Mike has built a storied career in technology both as an executive and Board member in public and private companies. I'll speak for the rest of the executive team and the Board that we have tremendous confidence in Mike, and we look forward to working with him even more closely in the coming months and years as we continue to scale the business.

I know Bill also wants to say a few words before we get to questions. Bill?

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

I just want to take a moment to say how thankful I am to have been part of Okta for these past 7 years. This was a difficult decision because I truly believe the future for Okta has never been brighter. And more than anything, I'm going to miss working with such a talented team.

But I'm excited to move on to this next chapter of my life, and I know Okta will be in great hands with Mike, who has really been a mentor to me from before our IPO to all our team building, scaling, financings and investor relations through the current day. I'm looking forward to working with him through the transition.

But now I'll turn it back to Dave for Q&A. Dave?

QUESTIONS AND ANSWERS

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

Great. Thanks, Bill. (Operator Instructions) And with that, we'll take our first question from Sterling Auty at JPMorgan. Sterling?

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

All right. Bill, let's start with you. Congratulations on one heck of a run. You really know how to go out with a bang. You put up the $1 billion guidance and just gave the mic drop. So we really appreciate that.

On to -- I'm just going to ask one question. So last quarter was a very strong upsell, cross-sell into your existing base. Can you just characterize when you look at the strength in the revenue and the bookings this quarter, how much of it came from new logos and what you're seeing in terms of the momentum in new logo additions to the business?

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

Sterling, nice to see you. I think it was -- I'm very pleased with the quarter across the board. I think it's a little bit more weighted to upsell transactions. I think that's a testament of a couple of things.

One is that a lot of our customers are, relatively speaking, just getting started with our products. We tend to do -- especially the last few years, we've done a lot of -- they were not small deals. But in terms of the potential that these customers could use from us, there was a lot of room to grow. So I think we're benefiting from that to some degree as well.

We're also just -- not some natural part of the motion as we move into more enterprise. There's just more -- there's more problems to solve, more value to add. So I think some of the mix will be more upsells as we move into enterprise. And then also I think a little bit of it is COVID, too. It's a little bit, on the margin, easier to work on an existing relationship versus build a new one. But that's really a marginal difference, I think.

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

Okay. Our next question is from Jonathan Ho at William Blair.

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

Let me echo my congratulations as well on the retirement, and we certainly will miss you. Just with the growth in the size of the deals that you've seen, is there any additional color that you can provide on maybe what's driving that upsell? Is this more expansion of use cases or penetration? I just wanted to get a little bit of additional color on that piece.

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

Jonathan, nice to see you. Happy to talk a little bit about that. So I think what you're seeing is, as Todd said, we're just getting started with a lot of these large organizations. You go back to some of the numbers that Todd mentioned. When you look at the top 25 contracts by TTV booked, they were all over $1 million, and 6 of them were over $5 million. That just gives you an idea that people are just starting to figure out how they can really take advantage of the service.

I think we're also right in the middle of transforming really from a products company to a platform company. And if you look at some of the announcements from showcase, where we're really starting to be able to do end-to-end workflows for customer identity and access management, it's giving customers a lot more opportunity to consume more and more of the service.

Finally, I would just say, if you look at some of the examples of the go-live press release that we've put out today, which we always do with earnings, I think it's always important to talk about net new customer wins and who you're adding in terms of logos. But just as important, if not more so, especially today in today's day and age, you need to talk about customers going live, being successful with the service. And if you look at that, there's a lot of upselling. People who are getting comfortable with workforce and going to customer identity and access management are starting with basic workforce products and then adding the advanced versions of MFA or single sign-on, and I think that's giving us a lot of room to grow.

And look, we're very happy with the results, and it's been a great quarter and a great year. But I think the next 3, 5 years, as we open up the platform and provide more solutions for our customers, are going to continue to be very, very exciting for us.

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

Excellent. And just as a quick follow-up, Bill, I know billings is less relevant than RPO. But just given your commentary around some of the headwinds that are there, is this -- how should we be thinking about that fourth quarter headwind? Is the growth in billings going to be more similar to the prior quarter? Or are there any sort of hints that can give us in terms of that magnitude? Congrats again.

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

Yes. Thanks, Jonathan. Appreciate that. Yes, as it relates to billings, like you said, we did see some headwinds this quarter. I talked about before how you're going to see some timing as it relates to invoice timing, and that's why we do think current RPO is a really good metric because it does eliminate that timing, which really has no impact on revenues.

However, I know a lot of you look at billings for modeling purposes. And so as you think about it, that headwind that we're talking about as far as the beneficial invoice timing that we saw come into Q3, for next quarter is approximately $6 million. So that's how I would think about that.

And if you think about the success we had in billings this quarter, we did have that beneficial invoice timing. But we also, as we talked about, had very strong business, very strong bookings and very strong performance.

So previously when we talked to you about how to think about the delta between subscription revenue and billings growth, we had talked previously about that delta. And now we think that delta will probably be narrower, probably in the range of like 3% to 4% for the second half of the year.

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

(Operator Instructions) And our next question is going to come from Shaul Eyal at Oppenheimer.

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

Congrats on results and outlook. Bill, it was a pleasure of working with you over the past few years. Good luck going forward.

So Freddy, I wanted to ask about the initial progress you've been seeing from the workflow product, the gateway server access and maybe any initial response you may have about lines that you've guys announced back in the summer with Proofpoint, Netskope and CrowdStrike.

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

Shaul, we're -- the Workflow platform service and the Advanced Lifecycle Management product and then the Customer Identity Workflows product is a -- we're really excited about it. And frankly, I think we still have work to do in terms of helping people understand the import of this strategy.

So the Workflows platform service is a core piece of technology that we've been working on the past couple of years. It stemmed from an acquisition we did a few years back from -- and we've turned that into a native Okta product. And it's a capability that's generally -- powerful generally, but then we've taken it and we've applied it to 2 very powerful specific use cases. And I think these 2 specific products that are now -- these use cases that are products really is the story for the future, where we're going to be taking all of these platform services and using them to build up products in various areas.

So the 2 products are Advanced Lifecycle Management, which is essentially -- it's our basic life cycle management product, but you can essentially program it in a visual way. Business analysts can program it in a visual way to do whatever they need to happen when a user joins or leaves the company or changes jobs, which is very powerful. And that's one -- that product is doing great. It's exceeding our expectations. We're really happy about that.

Customer Identity Workflows is essentially taking that core Workflows platform service and applying it to the customer identity use case. So when a person registers on your site, you can program it visually to do whatever you need to happen in that registration flow. You can copy over to Salesforce. You can integrate it to the marketing system. You can put in your own proprietary database. You can do a bunch of business logic. So we're really excited about this case. And a couple of concrete examples of how this approach of making customers successful and sometimes especially in large enterprises, relatively small use case off the bat but then that can grow and mature over time.

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

And then, Shaul, I'll just touch on your second question there about the partnership announcements that we had over the course of the summer. Look, the mega trends that we're fortunate to be helping our customers with, as you all know, is around the transformation to a hybrid cloud environment. Everyone thinking about digital transformation, and then obviously people thinking long and hard about how they're going to successfully implement Zero Trust as a security measure in this new cloud-based world.

And sometimes we get the question, "Could you possibly -- could Okta possibly become the biggest security company -- software security company of all time?" It's possible. But I think one of the things that our customers really, really appreciate is independence from neutrality, right? And if you look at the -- best of breed is a term that's often thrown around. But what the Chief Security Officers want and organizations, in particular large enterprises, they realize that the security challenges they face are big ones. And they know there's not going to be one specific vendor that's going to provide all those solutions.

So you referenced specifically a great partnership that we have. It's a 4-way partnership with Netskope, CrowdStrike and Proofpoint. It's going very, very well. And not only is it -- a lot of times, you'll have these marketing partnerships that are announced. This is a deep product integration. We're actually using the products together. They talk to each other. There's API translation, and you can actually enhance the performance of each of the products with the partnership. It's going very well. Customers are now -- it's generally available. Customers are well deployed. We're getting a lot of good results. And also, it's obviously an opportunity for us to expand our funnel because organizations like Proofpoint, thousands and thousands of customers, that's a big opportunity for us, especially those who don't already have Okta. So our partnership is going very well, and we're very excited about what that's going to portend for the times ahead.

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

Bill, good luck.

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

Thank you.

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

Right. Our next question comes from Drew Foster at Citi.

Drew Timothy Foster *Citigroup Inc., Research Division - Research Analyst*

Congrats to the team on a nice quarter and to Bill on the future retirement. I've got a two-part question. Your large deal metrics have been really strong this year. And with Q4 upon us now, how are you feeling about visibility into sort of large deal conversion as you close out the quarter and to the extent that there will be a swing factor for you this year relative to prior years?

And related to that, any color you can provide on the complexion of this year's Q4 large deal cohort from either a customer or deal demographic perspective relative to what you've seen in prior quarters? And I'm specifically wondering if you're seeing any of your newer products or use cases being considered as part of larger initiatives and to what extent.

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

Yes, absolutely. Thanks, Drew, for the questions there. The answer across the board is yes. I mean we're seeing very strong opportunity not only with our existing customers as you see in the dollar-based net retention. That has like continued to tick up over the 120% that we think is a very good mark as it is. Existing customers, large enterprises, you saw all the stats that Todd spoke about earlier on today's call, continue to do very well.

In Q4, absolutely, there's a lot of big opportunities for us to work with not only existing customers but net new. We're obviously already a month into the quarter, and things are going very well. So we're optimistic on not only this quarter, but as you know, large enterprises, these are relationships that we've started months and quarters, if not, years ago because you need to build up the time, you need to build up the experience and the comfort level that they have working with, frankly, a newer company like us. As we said, we're just getting started, and the times ahead are going to be very exciting. So not only is this quarter looking very good, but all the work we've been doing in the past quarters.

And in particular, again, I'll point back to customer success. When you have organizations like FedEx talking about going live with 80,000-plus employees on hundreds of applications over a weekend, that's stronger message than anything that we could deliver as a management team because other customers will look at that and say, "Wow, that's the kind of result I want."

So not only is Q4 looking very good, but I'm very optimistic about the first half of next year as well. I think the pipeline is looking very, very good. And not only in North America, but again internationally, there's a big opportunity. We talked about opening the Tokyo office. We're going to continue to accelerate our growth there. We already have great organizations, Siemens, Zurich Insurance, ENGIE. These are large brand names that have standardized internationally on Okta. But there's a lot more that we can do, and I think that the future quarters are going to be very good from that perspective as well.

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

Yes. I'm really excited about our customer identity business in the fourth quarter. I was just reviewing the pipeline last night, and we have a lot of big opportunities in customer identity. It's a very important part of our strategy. We're -- our future is about this dominant, first-class cloud all around identity. And for us to do that successfully, customer identity is a big part of that. It's a broad -- it's a much different use case and distinct use case from workforce identity. It broadens the strategic value of the whole identity cloud. It serves customers in a pressing business need they have to connect more closely with their customers over -- in the digital channel. And we're investing a ton in that opportunity in that market, and it's great to see it really pay off not only in the results but in the future quarters ahead.

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

Our next question is coming from Taz at Guggenheim.

Imtiaz Ahmed Koujalgi *Guggenheim Securities, LLC, Research Division - Director of Technology, Media & Telecom and Analyst*

Can you guys hear me okay?

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

Yes, Taz, loud and clear.

Imtiaz Ahmed Koujalgi *Guggenheim Securities, LLC, Research Division - Director of Technology, Media & Telecom and Analyst*

So last quarter, you guys gave us some color on how much the CIAM side of the business grew by. I think you said 70% last quarter. Any more color on how the business performed this quarter?

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

It's strong. Yes, it's in the same ballpark. We don't break it out specifically every quarter. We're considering doing that in the future, but for now, it's a once in every few quarters type of metric for us.

But we're seeing both health in the raw amount of business, but also in the number of companies that are getting started with that platform or that use case of our platform. So in addition to just the raw dollars of bookings, we also look at the starts and the projects that are going, and that's -- it portends very well for the future.

It's important. I mean every -- we talk about COVID and what it's done for the business and headwinds and tailwinds and all that stuff, but a big truth is that it's really, really made every company serious about their online strategy. I mean it's something they've all known they've had to do. And they've been thinking about, "Hey, we got to get online. We got to change. We got to adapt. It's a digital world." But COVID has made it very clear that they need to act now, and we're seeing that in the -- in what's going on in our business as well.

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Imtiaz Ahmed Koujalgi *Guggenheim Securities, LLC, Research Division - Director of Technology, Media & Telecom and Analyst*

Yes, that's very helpful. And then one follow-up for Bill. Bill, you had strong growth in billings, strong growth in current RPO. If I'm doing my math right, on your full RPO bookings, it looks like that was a bit lighter versus last quarter.

Any comment on duration? Was duration a headwind for total bookings into RPO this quarter?

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

Yes. We did decelerate moderately, as you talked about, Taz. But we've been very comfortable and very pleased with the growth in our business. As we look at average deal size, the average deal size especially in the enterprise increased significantly. We've talked about the growth in our greater than $100,000 customers. We added nearly 100 of those, and that grew 34% year-over-year.

The base of our large customers, which we talked about, which is those customers with an annual contract value greater than $500,000, grew over 50%. And then as we've talked about, we also saw a 2 point increase in our net retention rate. So we saw all our top line metrics really, really strengthen.

And in addition to that, since the pandemic has started, we've actually seen a bit of an uptick in our average contract length. So I think when you're looking at implied bookings, which I think is the calculation you're looking at, you're going to see some fluctuations quarter to quarter like we did in Q1 and Q2. But we're very pleased with the top line growth and especially in the enterprise with both deal size, and as I said, we're even seeing a bit of an uptick in term length during the pandemic, during this period.

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

Next question is coming from Hamza Fodderwala at Morgan Stanley.

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

So I wanted to touch base on the CIAM business. You talked about a pretty strong pipeline going into Q4.

I'm wondering, we're also seeing, in addition to the market opportunity, a number of private vendors get in the space with sort of similar developer centric approaches to you guys. How do you think about differentiating yourself as a market leader in this space going forward?

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

Yes, absolutely. Thanks for the question, Hamza. Nice to see you.

I think that the first thing is you have to think about when people are talking about customer identity and access management, this is not just -- the employees is important, and it's all about security, and it's about reducing costs and getting out there.

When you're talking about customer identity and access management, this is at the revenue line and this is top line growth of the company. So this is not something that you want to -- that a lot of times, what we hear from our customers and prospects is this is the lifeblood of the business. It's looking to drive revenue. You can't be down for an hour, much less a minute.

So they're really looking to -- what we hear a lot from our customers is they're really looking to vendors who can provide security, reliability, performance. And not just in terms of like a PDF that you're going to shift around and some stats you're going to put on the website, again, the metrics that customers are willing to stand behind and talk about the results they're getting.

So we're very happy with the 4 9s reliability that we offer on the entire platform with no exceptions, no asterisk. We're the only ones in the industry to do that for customer identity and access management. We're the only ones to have a FedRAMP moderate service, HIPAA-compliant, following all the regulations that you need around the world.

And then if you just look at the size and scale of deployments of organizations like Major League Baseball, north of 50 million consumers deployed. Albertsons, a major Fortune 500 retailer obviously with 27 different brands, the ways that they standardize the experience for

customers, and they do that at scale reliably and securely, I don't think -- it's not negotiable really for any of these companies because, obviously, if your website or your app goes down, I mean that's a CEO- and Board-level conversation, and that's not something that people are looking to mess around with.

So look, these are big markets. We estimated earlier this year at Analyst Day that the customer identity and access management market is $25 billion probably spent every year already on that. So are there going to be upstarts that are going to go after certain pieces of it? Absolutely. Are there things that we need to continue to do to accelerate and invest in the platform? You bet, and we're making big investments there. But we're also looking for great partnerships around fraud, around fraud prevention, around botnets. And then obviously we have Okta Ventures where we've been making some very interesting investments in promising customer identity and access management solutions that are going to help bolster our solutions. So you're absolutely right, huge opportunity, one we're really focused on and one that I think is going to be very exciting in the times ahead.

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

Yes, it's a great question. And I'll just follow on to reiterate one point is that this category is early in its potential, which means that it's -- there's a lot of definition and filling out of the category to be done. And in my conversations with customers, what I've noticed is that they want someone that can help them do that, help formulate the category, invest in the category to the level we can, buy companies and round out the solutions like we can. So it's an area we're very serious about hoping to find that category, and it's going to be it's going to be fun to do. And it's going to be, I think, pretty beneficial to customers and to our company.

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

That's helpful. And my congrats to Bill as well.

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

Thank you.

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

And our next question is from Eric Heath at KeyBanc.

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

Congrats on the quarter. Bill, congrats on a great run as well. Question for Todd or Freddy, so where are we with customers kind of reacting to COVID and the initial work from home remote access demand versus that next phase of customers tackling digital transformation and looking to rearchitect our security posture for more of a Zero Trust framework?

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

I think we -- I think the initial rush to figure out work from home is probably a quarter behind us. I think we're into this new normal now where people are optimizing their reactionary things they did. And they're back to more of like a thinking about the future.

And I think that sometimes that means just deployments of identity for workforce, right? Not every workforce identity deployment is to react to work from home. A lot of it is just the normal putting in new apps, wanting to be more flexible independent of COVID, and we're certainly seeing that.

But on the customer identity side, I think you're seeing that the impetus and the catalyzation from COVID really starting to materialize because of what I said before. Everyone now knows that they need to do something, and those projects take time. And even when they do happen, sometimes they happen small and then build up over a period of quarters. So I think that's well underway, and I'm excited about -- for that specific dynamic, I'm really excited about the next few quarters as that plays out.

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

And I would just add that in the large enterprise, CXO leaders who've either been in the industry for a long time, and/or have been inside their organizations for a long time and built up a lot of political capital, realize that this is one of those technology leapfrog moments where they're having challenges getting into their data centers. On-prem infrastructure, they now realize, as does the rest of their

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organization, is very hard to manage and maintain when you can't go, touch it and feel it every day. And so they're really looking to ways that they can move to these cloud solutions that offer the service, the platform, the reliability, security they need from day 0, from the first time they turn it on.

And I think that's going to be very exciting. You're going to see some big transformation projects in the times ahead, again, from these large companies and these experienced leaders who know that this is the moment they can take advantage of.

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

Great. And maybe just to expand a little bit on the prior question. Could you provide an update on the competitive landscape? Maybe if you can segment it out between workforce and consumer. And any changes relative to Microsoft?

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

Yes. It's something we look at a lot, and we think about it a lot. And there's no change.

It's been interesting. The last really since -- I'd say that overall competitively for Okta, we've gone through -- very early in our history, we were competing to define the category in workforce with smaller vendors. At the time, we were start-ups -- bigger than start-ups. And then we were able to -- through hard work and being true to our vision, we were able to differentiate ourselves from those competitors.

And then the environment was materially different back I think in 2014 when Microsoft decided to compete with us with their Azure Active Directory product, and we were all nervous about that when that happened. But turns out that what they were doing, moving everyone to the cloud with Office 365 was the best thing that ever happened to Okta. It was kind of -- it was I guess a little bit annoying to have a direct competitor, but the macro catalyst for the market was very powerful for us.

And I think that dynamic with Microsoft is largely unchanged. I mean I know they've talked a lot about what they're doing, and they've tried to improve their product. We're investing obviously heavily in our product to stay ahead of them. So that competitive dynamic is pretty consistent over the last 5, 6 years.

I think the reason why is because -- and this is not just Microsoft but with every big platform that now that they've seen our success, they want to have success in identity as well. I think we have a very different world view. We think this should be its own independent platform. We think that you can't bolt on identity to another platform because identity has got to be a neutral router. It's got to be able to log you securely and connect you and provision you equally to any platform or any application, any device. It can't be beholden to one platform.

I often joke, imagine being the product manager at Microsoft working on the -- some of their competing products, and you come up with this great idea to really connect people to AWS, right? You'd get fired. They'd be like, "What are you doing? You can't Connect people to AWS. It's Azure and Azure only." Or -- so I think it's just a philosophical thing. And then you pair that with the fact that our product is just superior and better and has more functionality. I think you see the competitive environment there.

The last thing I'll add on that too, a lot of our success now is replacing legacy. So it's been pretty interesting. In the legacy identity markets, you've seen CA basically exit the business. You've seen some of the other players that were traditionally big, whether it's IBM or others, they're essentially not invested at all. And customers are on these products. They've been on these products for 15 years, and the maintenance is coming to an end and they have to do something. And that's catalyzing the move to the cloud as much as anything else.

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

Our next questions come from Keith Bachman of BMO.

Unidentified Analyst

This is [Dan] on for Keith. I wanted to ask about Okta Insights and the usage trends you're seeing there. Can you maybe talk about any growth in data volumes and also how customers are using Insights?

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

Yes, absolutely. Thanks for the question, [Dan].

For those of you who are not that familiar with the Insights product and actually the suite of products that we have there that we've been building for quite some time and the customers are really trying to take advantage of, I mean I think that's a great example of how being the premier independent and neutral vendor and the primary vendor for identity as a cloud service really plays into products like Insights, right? We have 9,400-plus enterprise customers deployed at scale.

The amount of data that we now see inside the network across users, as you can imagine, when we see a nefarious actor behaving poorly against one of our customers, we can instantly protect north of 9,000 customers. And we do that every single day. So the Insights products are very -- and so we started doing this. We started getting a lot of insight. We were able to help customers. And then we said to ourselves, well, there must be ways that we can actually provide this data back to customers. The first way that you saw with the public Businesses @ Work report that we've had out for a number of years now that provides a lot of insights to your customer, you can understand what your peers might be using in a new category that you're trying to use. But now we also have Insights as a customer usable product so that they can figure out whether you're an end user, how you might be able to optimize your experience, whether it's on your dashboard products you use most often will automatically shift to the natural position you would use them; whether it's as IT or security, you can get insight across your entire -- either its employee base or customer base on how they're doing things, what might be happening. And obviously getting that signal from all the noise when something is going not according to plan, when you might have a security incident or you might have a breach or you might have some behavior from an IP range or a geography that you wouldn't expect, you can do something about that in real time and we'll alert you to that.

So those products are doing very well. But again, tell you, more customers come to the service. It's a great example of the network flywheel. That product gets -- those products get better and better as we get more users and customers on platform.

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

Okay. Next question comes from Ben Bollin at Cleveland Research.

Benjamin James Bollin *Cleveland Research Company - Senior Research Analyst*

Two items. One is could you give us an update on what you're seeing from an origination perspective of business from channel opportunities versus direct? And maybe talk a little bit about what role you see the channel playing for net new versus upsell to preexisting.

And then an additional question would be a totally separate subject. But any thoughts on the incrementality of spend for identity from customers deploying technologies such as SD-WAN or SASE and how you see that translating to spend and maybe what that tail of opportunity looks like into future quarters?

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

Yes, absolutely. Thanks for the question, Ben, -- for the questions, rather.

I'll take the first one first. On the channel side of the house, we're very bullish on what the channel can possibly provide us. When you're a small company and you're getting up and running and getting going, you're a private company even when you start to go public or think about the public markets, a lot of times it's a direct sales just because there's such quick iteration between you and the customer base understanding what customers need. And obviously if you're a business like ours where it's all about innovation, it's about transforming legacy industry that's been around for 30 years with no innovation and bringing a completely new model to market on a global scale, you need to have that primary information translation with your customer. It's hard to explain to a channel how to even do that because you're learning yourself.

The channel has started to do very, very well over the last few years. I think a couple of quarters ago, we talked about how half of the new bookings that quarter had come from the channel. Not something we update every single quarter, but it's continuing to do very, very well.

And now it's not only your traditional system integrators, resellers, distributors, very good partnerships we have, whether it's at the global level with Accenture and KPMG And PricewaterhouseCoopers and Deloitte, whether it's regional security vendors that are out there and have very strong practices like Optiv or whether it's the large-scale distributors like SHI and Insight, we have very good partnerships there. But actually, if you see the press release we put out today, we're starting to get really good channel distribution opportunities from technology vendors, and obviously starting with AWS, is a fantastic one.

Our introduction through AWS Marketplace is something that I think is really revolutionary for us as a company and for AWS. There's a brand-new set of products they're putting out around control tower, which allows people with more and more complicated AWS environments to manage those environments more intelligently from a security perspective. We're the only identity vendor that's in there that's part of that.

Also now as you know, many customers have these large contracts with AWS, where they might be persons using a certain set of AWS services, but over time, they can buy anything from the marketplace and that fulfills some of the requirements they have in those contracts. So now any AWS customer can go on a marketplace and purchase Okta workforce or customer identity and access management. And by the way, AWS sales reps get comps for that.

That is brand-new partnership, just out of the box. In fact, I know they're having their re:Invent keynote tomorrow. Andy Jassy's going to be talking about this on main stage. These are the kinds of opportunities where you want to talk about the quarters ahead and the years ahead. I mean you all know the results AWS has, but you also all know how early we are in the migration to public cloud. These are the kind of distribution opportunities that I really think can have a significant effect and frankly be impactful to the business in the short term and obviously in the long term. So we're very bullish on all those.

Your second question was around SASE and kind of convergence of the security landscape and what that might mean for us. Look, we have very strong partnerships. We talked about a few earlier. Still have very strong partnerships with some of the leading vendors out there like Cloudflare, very complementary solutions with Zscaler, a lot of joint customers that are leveraging. Again, product-to-product integration, not just a bunch of architecture, but actually having the products sending signal to each other and making each product smarter, that is certainly something that's only going to accelerate, right? As people get rid of on-prem firewalls whether it's actually physical or virtual appliance, it doesn't really matter. They're going to move to public cloud, and that means they're going to need more of a primary identity cloud. And I think that's a huge opportunity for us to help our customers.

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

Okay. We're going to take one last question. We've got Joshua Tilton from Berenberg.

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

Hey, Joshua. I think it's only fitting that whatever you ask, I'm going to have Bill answer it as the final earnings call he's going to do.

Andrew Blake Smith *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate*

Okay. This is actually Andrew Smith on for Josh, but just one from me. So as organizations continue to move to the cloud, have you seen the number of deals where the CISO is the primary decision-maker or purchaser of workforce products increase this year? Or maybe put another way, if you could ballpark, what percentage of your workforce deals are security-driven deals?

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

Yes. Thanks. I would say that over -- really over the last few years, we've seen more deals where the CISO is very involved because obviously there is a high degree of security needs. And for us as identity, which is really when you think about it, that central perimeter for security, it's more and more important. And I think that's certainly what we're seeing.

We're also seeing that there are a number of reasons why folks want to use us both for workforce and CIAM. And certainly among those is

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in addition to being able to do it at scale and to do it efficiently is security. And the fact that we are an identity separate platform where we've got all these different partnerships and as Freddy said, deep integrations with other security products, it really is a reason why companies are looking to us for that.

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

Okay. Well, that does it for today. But before we go, I just wanted to let you know that we'll be attending 3 virtual conferences over the next 2 months. We'll be at the UBS Global TMT Conference on December 9, the Goldman Sachs Technology and Internet Conference on January 12, and the Needham Growth Conference on January 14. So we hope to see you at one of those events.

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