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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Alexander Henderson *Needham & Company, LLC, Research Division - Senior Analyst*
Drew Timothy Foster *Citigroup Inc, Research Division - Research Analyst*
Gray Wilson Powell *BTIG, LLC, Research Division - Director & Security and Analytics Software Analyst*
Hamza Fodderwala *Morgan Stanley, Research Division - Research Associate*
Hannah Rudoff *D.A. Davidson & Co., Research Division - Research Associate*
Jonathan Frank Ho *William Blair & Company L.L.C., Research Division - Technology Analyst*
Robbie David Owens *Piper Sandler & Co., Research Division - MD and Senior Research Analyst*
Sterling Auty *JP Morgan Chase & Co, Research Division - Senior Analyst*
Xiaocon Liu *Goldman Sachs Group Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Okta First Quarter Fiscal 2021 Conference. Today's conference is being recorded. I'd now like to turn the call over to Dave Gennarelli, Head of Investor Relations, Mr. Gennarelli, please go ahead.

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

Good afternoon, and thank you for joining us on today's conference call to discuss the financial results of Okta's first quarter fiscal year 2021. With me on today's call are Todd McKinnon, Okta's CEO and Co-Founder; Bill Losch, the company's Chief Financial Officer; and Frederic Kerrest, the company's Executive Vice Chairman, COO and Co-Founder.

Today's call will include forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements regarding our financial outlook and market positioning. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Forward-looking statements represent our management's beliefs and assumptions only as of the date made. Information on factors that could affect the company's financial results is included in its filings with the SEC from time to time, including the section titled Risk Factors in its previously filed Form 10-K.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. 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. On today's call, we will quote a number of numerical 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 call over to Todd McKinnon. Todd?

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

Thanks, Dave, and thanks, everyone, for joining us. I hope that you, your families and your colleagues are safe and healthy. Like us, I expect that many of you continue to work remotely. The pandemic has created unprecedented challenges for businesses around the world, with millions of people suddenly working from home, many for the very first time. This, in turn, means thousands of organizations had to adapt quickly to maintain productivity and security for employees, allowing them to easily connect and collaborate with colleagues. Additionally, as web and app traffic surge, organizations need to modernize and strengthen their security and identity posture. This afternoon, I'll talk about what Okta has done to adapt to this new environment, highlight some of our strong Q1 results, recap the exciting innovations we announced at Oktane20 Live last month and talk a little about what we're doing to help our customers and communities get through this crisis.

As a leadership team, our first priority is the health and safety of our employees. We made the early decision to close our offices around the world and transition 100% of our 2,000-plus employees to work from home. We were able to transition rapidly and seamlessly because, over a year ago, we began a workplace of the future initiative that we call Dynamic Work, in which our employees utilize our core technology to enable secure access to any technology from anywhere. Dynamic Work has allowed us to build a more agile, flexible work style into our culture, ensuring our employees around the world can be successful regardless of their location. This agility helped us continue to execute as we entered this new environment, and we're very pleased with our Q1 results.

Total first quarter revenue grew 46%. Subscription revenue grew 48%. Remaining performance obligations, or RPO, grew 57%. And we generated record free cash flow. Billings growth was also solid despite some pressure as customers were trying to adjust to the new environment. One of our strengths is that we have a diversified customer base and we're not overly weighted in any one industry vertical or on any one particular customer. The vast majority of our overall business is generated from large enterprise companies. With these large enterprise customers and prospects, we did experience some projects getting more scrutiny but believe, in most cases, the project implementation and/or purchase decisions have been pushed out to a later date rather than canceled. These delayed decisions were primarily within the industries most impacted by the pandemic.

A much smaller portion of our overall business is generated from small- and medium-sized businesses or SMBs. As expected, we did see some business activity slow in this sector, but this sector has less impact on our overall business. Whether for an enterprise or an SMB customer, we're doing what we can to be flexible and work with these impacted businesses to help support them through this period.

We also experienced demand from both new and existing customers that needed to fast track their identity and access management plans as a key element of their emergency response. We are working hard to partner with all of our customers and prospects to help them navigate this environment as they transition some or all of their employees to remote access. A great example of this is what we did with the state of Illinois, which was a notable win in the quarter for both workforce and customer identity. With the onset of the pandemic, Illinois needed to ensure it could securely manage its remote workers and secure the identity and access of several state agencies. The state had numerous disparate legacy identity systems across its agencies, which caused friction for its employees, contractors and citizens. Illinois selected Okta to be their identity standard, which will streamline their operations with a single unified identity platform.

With Okta's customer identity solutions, Illinois' citizens will have a secure, seamless experience when accessing their government resources. And with Okta's workforce identity, the state's employees and contractors will be able to more efficiently do their jobs. Additionally, Okta Advanced Server Access will also help protect the state's current on-prem and new cloud-hosted servers. The ease of deployment, ability to manage cloud administrative capabilities and automated provisioning for accounts and policies will provide significant security benefits.

Over the years, Okta's technology has earned a reputation for its ease of deployment, especially in large and complex environments. That's become more critical than ever as we help enable our existing and new customers with identity and access management solutions during this time of unprecedented challenges. There's no better example than what we did to help our valued customer, FedEx. In just 36 hours, we helped FedEx deploy the Okta Identity Cloud to enable more than 85,000 remote and essential employees to connect to critical applications amid increased demand during the crisis. This was a massive deployment accomplished in just days and exemplifies our commitment to customers because we tap our success directly to their success.

One of the areas that we've been investing in is growing our base of large enterprise customers. We're seeing those investments pay off, and it's reflected in the addition of 113 customers with an annual contract value greater than $100,000 in the first quarter. Once again, over half of these additions were from new customers. The total number of $100,000-plus customers is now nearly 1,600, and the annual contract value of this cohort increased nearly 50%. These large enterprise wins are across a wide range of industries. To provide some insight into the diversity of our customer base and the types of challenges our products help them solve, I'll share some details of a few notable wins and upsells from the first quarter.

Parsons Corporation is a Global 2000 solutions provider for intelligence, defense and critical infrastructure markets and a new customer for both workforce and customer identity. Parsons was looking for a secure and scalable cloud solution to replace its existing fragmented legacy identity platforms. Okta will provide universal directory, single sign-on, advanced life cycle management, multifactor authentication and Okta Access Gateway for Parsons' 16,000 employees. We'll also provide authentication and authorization for its growing Software-as-a-Service offering to its global customer base. The Okta Identity Cloud and its extensible prebuilt integrations will make it easy for Parsons to integrate applications that support its rapidly growing business and create user workflows that reduce IT friction.

An exciting upsell in the quarter was T-Mobile. The company originally selected Okta to be its identity standard for building front-line applications and providing corporate, retail and customer care employees with seamless access to the tools and resources they need. Recently, T-Mobile successfully completed its merger with Sprint, creating the second largest U.S. wireless provider. Now as a unified company, it needs to ensure that both T-Mobile and Sprint employees can access critical front-line applications to best serve its customers. Given its prior success with Okta, T-Mobile is relying on Okta to be a foundational part of their day 1 architecture, helping onboard an additional 30,000 employees.

The megatrends of increased adoption of Cloud and hybrid IT, digital transformation and Zero Trust security have been driving our business for the past several years and will continue to drive our business well into the future. In fact, once we emerge from the crisis stage of the pandemic, we expect to see an acceleration of these trends. These trends resonate now more than ever, and our leadership position going into this crisis will be further enhanced as we expand our presence and product offerings.

That's a good segue to recap some of the great product announcements we've had at Oktane20 Live last month. We were one of the first companies to host a large and virtual event, 2 events if you include our Investor Day. It was an unexpected and challenging task, but both events were incredibly successful, and our customer and investor feedback was amazing. We had nearly 20,000 registrations for Oktane20 Live, which is over 3x what we had been expecting for the in-person event. We operate in a world where innovation, agility and adaptability have always been important, and our ability to quickly pivot to virtual events exemplifies what makes Okta successful.

From product perspective, we had a lot of fantastic news that showcased our innovation. We doubled down on further expanding a trusted platform, introducing Okta Platform Services, a foundational part of the Okta Identity Cloud. Okta Platform Services enable Okta to meet unlimited workforce and customer identity use cases. Two new key components within Okta Platform Services are Okta Workflows, which makes the Okta Identity Cloud programmable, and Okta Devices, which ensures seamless secure access across all your devices. Okta Lifecycle Management Workflows uses the workflow service to automate the most complex processes across the enterprise and with no code. Okta FastPass, built upon the devices service, will be the beginning of the end for passwords at work. All this functionality and innovation as well as expanded Okta Identity Engine capabilities joined Okta Integrations, Okta Directories, and Okta Insights platform services to further evolve the industry's leading independent and neutral cloud identity platform.

During Oktane, we also announced important new strategic technology partnerships with leading endpoint protection and management providers, VMWare, Carbon Black, CrowdStrike and Tanium. The new integration partnerships provide a broad set of device risk signals to the Okta Identity Cloud, enabling enterprises to combine endpoint risk detection with user identity to deliver unparalleled security and open the door to really innovative ways to deliver on the promise of Zero Trust security.

While we're excited about the current state of our business and believe the future is extremely bright for Okta, we understand that we're in the midst of an uncertain economic environment and that millions of people and businesses around the world are facing difficult times. We are grateful for our strong position as a company and are as committed as ever to giving back to our communities in helping small businesses. Our mission is to enable anyone to use any technology. That really resonates, and we believe any organization that can benefit from leveraging the Okta Identity Cloud to keep their workforces productive while working remotely during this crisis should be able to do so at no cost. That's why we made some of our core services free to new customers for up to 5 apps for all users through our Okta for Emergency Remote Work program.

Okta for Good, our social impact initiative, is focused on supporting nonprofit organizations on the front lines of this crisis through rapid response grants and matching funds, much of this to local organizations serving some of our most vulnerable. In addition, we recently announced that Okta is committing $10 million out of the Okta for Good fund to support grants and investments in nonprofits working at the intersection of social good and technology. We will also continue to support local organizations in Okta's global communities and further empower our employees to give back.

As we look forward to the rest of this year and beyond, when this crisis is over, we don't expect organizations to revert to their prior ways of working. We have no doubt that a much higher percentage of workforces will be connecting remotely, and we see that as an inevitable long-term trend. Actions that organizations are taking today are accelerating that long-term arc toward using more technology for more flexible work. That's a positive trend for the world and for Okta. Okta has earned a reputation as a thought leader on the future of how people will work, and we are helping our customers move down this path in accelerated time frames.

Despite the current environment and the near-term uncertainty it brings, we will continue to invest to drive long-term growth and innovation at Okta. We've also taken action to conserve cash where appropriate. In doing so, it will allow us to maintain our agility and move rapidly to capitalize on growth opportunities when the time is right. Our commitment to our customer success will help us navigate this environment, lead the new way of work and seize the opportunity to emerge in an even stronger position.

And lastly, I want to mention that Charles Race, Okta's President of Worldwide Field Operations, is planning to retire early next fiscal year. Since joining Okta almost 4 years ago, Charles has been instrumental in building out a strong bench and top-notch go-to-market organization, positioning Okta for success well into the future. Charles will continue to lead the field organization while we undertake the search and onboarding process of our next global go-to-market leader. Obviously, this gives us a long runway to attract the best candidate while ensuring continuity and success of our customers and channel partners during the transition period.

Thanks again for your time, and now I'd like to turn the call over to Bill to walk through more details of our first quarter financial results as well as guidance. 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 is available on our Investor Relations website, and contains our detailed financial results. I think you'll find it to be a useful summary, and as such, I will only cover a few of the notable highlights in my commentary this afternoon.

As Todd mentioned, we had a strong first quarter with particular strength in revenue, operating margin, cash flow and net retention rate. As expected, we also experienced some pandemic-related business headwinds as we exited the quarter in April. I'll now touch on some of the first quarter highlights and then go into our outlook for the rest of the fiscal year.

Turning to our Q1 results. Total revenue increased 46%, driven by a 48% 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 that has not yet been recognized, grew 57% to $1.24 billion. Current RPO, which represents contracted subscription revenue we expect to recognize over the next 12 months, also experienced strong growth of 29%. Year-over-year growth in current RPO is a more meaningful metric when viewed along with subscription revenue and billings growth.

Total calculated billings grew 42%, and the current calculated billings grew 41%. The strength in billings was driven by both new and existing customers as well as beneficial invoice timing. Billing strength was partially offset by delays in purchase decisions as organizations adjusted to the current environment. We expect Q1's beneficial invoice timing to become a modest headwind to second quarter billings growth.

Turning to retention. Our dollar-based net retention rate for the trailing 12-month period was 121%, a 2 point increase from last quarter. The increase was primarily driven by strong customer upsell, particularly with our enterprise customers as we grow our business with and within the world's largest organizations. As we mentioned at Investor Day last month, our strong net retention rate is built on strong gross retention. In Q1, we also experienced a slight increase in the gross retention rate within our enterprise customer base, which makes up the vast majority of our business. Gross retention at SMB customers was consistent with the last 4 quarters. As I've mentioned in the past, the retention rate may fluctuate from quarter-to-quarter. 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 29%, which was lower than expected, primarily due to our change to virtual events, including Oktane as well as a reduction in T&E. We also saw lower employee-related costs, as the pace of hiring has moderated due to the current environment. Headcount increased 34% to almost 2,400 with the increase primarily in our customer-facing and innovation teams, as we continue to spend to support our strategic initiatives.

We generated record cash flow from operations and free cash flow of $39 million and $30 million, respectively, which yielded a 16% free cash flow margin. The strong free cash flow was driven by strong collections from business booked in the fourth quarter, which is typically our largest quarter of activity as well as the lower cash outlays due to a reduction in expenses related to the pandemic. We ended the first quarter with a strong balance sheet anchored by $1.45 billion in cash, cash equivalents and short-term investments.

Moving on to our business outlook. We remain optimistic about the demand for our products and are maintaining our full year 2021 revenue outlook that we provided at our recent Investor Day on April 1. Our revenue guidance is predicated on our strong first quarter results but also our expectation that pandemic-related headwinds that we began to see during the first quarter will persist and increase in Q2 and Q3 before we see a return to more normal business activity as we exit Q4. Our guidance is based on current assumptions about the macro environment and impacts from the pandemic. As a SaaS-based business, we have a strong base of business that is already contracted and in backlog that we will recognize as revenue.

For the full year of fiscal 2021, we continue to expect total revenue of $770 million to $780 million, representing a growth rate of 31% to 33% year-over-year. While we are maintaining our revenue outlook, we are improving our outlook for operating loss and loss per share as we incorporate our better-than-expected first quarter results into our current expectations. We now expect non-GAAP operating loss of $37 million to $30 million and non-GAAP loss per share of $0.23 to $0.18, assuming weighted shares outstanding of approximately 125 million.

We continue to expect to be free cash flow positive in fiscal '21. We are now planning on capital expenditures of $15 million to $20 million in fiscal '21, down from our prior outlook of $35 million. The decrease is related to reduced facilities needs as we accelerate our Dynamic Work strategy. For the second quarter of fiscal 2021, we expect total revenue of $185 million to $187 million, representing a growth rate of 32% to 33% year-over-year; non-GAAP operating loss of $5 million to $4 million; and non-GAAP net loss per share of $0.02 to $0.01, assuming weighted shares outstanding of approximately 125 million.

In summary, we executed and performed well given the current environment. While we believe there will be some business impact from the pandemic in the near term, the value of our products is more clear than ever as organizations shift to a more decentralized work environment. Our industry-leading cloud-based platform is addressing more and more complex use cases across both workforce and customer identity, and we continue to innovate to address those cases as you saw at Oktane last month. Okta has developed a strong foundation and market leadership position, and we plan to further capitalize on the tremendous market opportunity in front of us.

With that, Todd, Frederic and I will take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Rob Owens from Piper Sandler Corp.

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

Great. Todd, wanted to drill down a little bit around customer purchase decisions and where we are from a tactical perspective versus a strategic perspective. We all hear about the acceleration of digital transformation and a great digital awakening coming out of this, and I appreciate your comments around acceleration of trends. In the near term, where are they from a tactical perspective versus a strategic perspective? And if I think about when people tend to go in and change around their identity scheme and potentially move to cloud, is there a lagging effect? Or is that typically done at the same time?

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

I think that one thing that's interesting about the environment is, at a high level, I believe that this pandemic has fast forwarded the adoption or at least the mindset around adoption of cloud in general by 5 years. I mean I think that people are thinking about cloud and the inevitable migration to cloud. That has been fast forwarded in people's minds significantly. Now as you mentioned, it's about how do they tactically execute to that and how does that, more specifically Okta, how does that impact our business. I think you're seeing couple of different -- in the customer base and in the prospects, you're seeing a couple of different scenarios. One scenario is inside impacted industries. In an impacted industry, if you're a cruise line or an airline, you're really just triaging your business and trying to survive right now. And in an industry that's not impacted, you're working from home and you have real tactical concrete acceleration of projects around identity specifically because people at home are outside your perimeter, and that security model doesn't work. So you have to get something like an Okta in place, and that's what we're seeing customers do.

I think the other thing you're seeing is that people are deciding on the medium term now, what is the next 3 to 6 months to a year and what projects can they pull forward and what can they reprioritize to do this inevitable move to better customer websites, better mobile apps, better tools for their employees. And I think they're starting to really figure out that identity is a big part of that, which puts us in a pretty advantageous position.

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

Sure. And then the obligatory guidance question for Bill here given the -- when you set the annual guidance, I think it was on March 5 when we were heading into this and obviously, a very strong first quarter. You talked about some timing, but obviously, upselling is going well as well given that net renewal rate. So I guess the delta about 90 days later or whatever it is, what's changed in your mind relative to some of the headwinds you might be seeing given the strength in the first quarter? Why doesn't that translate through for the remainder of the year?

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

Yes, Rob. So we did have a very strong first quarter. I'm very pleased with that. The reality is no one really has clear visibility right now. What we've based our forecasts and assumptions are on -- with the prevailing views of what the current macro trends are for the next 6 to 12 months, and those trends indicate that the macro environment, the current macro environment is going to be more negative in Q2, Q3. So as we think about the headwinds from the pandemic, that's how we think about those headwinds being stronger Q2, Q3 and then coming out of it as we exit Q4 as more normal business activity is expected to come back. So that's really how we thought about it from a really that tops-down perspective.

From a bottoms-up perspective, we also looked at it. We looked at pipeline, which has been very strong. Our pipeline is strong, and we're very pleased about that. We've looked at some of the things that we saw at the end of this quarter as far as what Todd said earlier, as far as purchasing decisions getting delayed. The small- and medium-sized business, even though that is a very small piece of our business, especially in the impacted industries, having some risk. So we took a conservative view both looking at it from a tops-down and a bottoms-up approach, and that's really how we derive the forecast that we gave today.

Operator

We're next going to Jonathan Ho from William Blair.

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

I just wanted to get a sense from you, first of all, in terms of the size of the impacted industries and your potential exposure there. And are you seeing any sort of churn in those industries as well?

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

And so I think that...

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

Yes. I was going to address specifically the impacted industries and the size of that. Sorry, Todd. I think that for -- as we look at impacted industries and we define them consistently, I think, with others in what they're seeing, it's consumer retail, hospitality and travel, food and beverage. That makes up about 12% of our business. So it's still a relatively small part of our overall customer base. And I think that, as we mentioned in Q1, our Q1 results, we had very strong net retention and very strong gross retention as I said in my comments. And that gross retention is both on the enterprise, where it actually ticked up a bit, and even small business where it stayed fairly consistent. So, so far, we're seeing pretty good strength on retention. But as I said earlier on Rob's question, as we think about those heavier -- stronger headwinds against us as we go into Q2, Q3, in this medium term, we think there could be more situations where customers coming up for renewals, we do see some risk there. But we factored that into the guidance we gave today.

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

Great. And then just maybe relative to some of the product sets that have benefited a little bit more from work from home or maybe a little bit less, can you help us understand whether things like MFA maybe benefited a little bit more? Or maybe other things like life cycle management, which are more complex, are those impacted a little bit more in terms of the deal delays? Any color around the product set performance would be great.

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

One of the things that's interesting overall is just that we can talk about the sales and new customers and prospects buying new products. But just usage overall is really accelerating, which is exciting. We're a company built on customer success, and we're seeing our usage of all our products as people work from home shoot up, particularly in the multifactor authentication product. That's very tangible mapping from working from home and security beyond the network perimeter and the need for that product. So that's -- customers are having a ton of success with that, which is great.

I would say we don't break out the sales of sub products, as you know, but I'd say that it's very interesting in the pandemic-related pull-forward activities, which we've seen a lot of, is it's really been a workforce phenomenon so far. You're seeing the workforce products be pulled forward. It's pretty obvious it's as a result of remote work and needing more security, whether it's MFA or just basic access management.

On the customer identity, I see that those projects are built, right? There are websites, mobile apps being built. So the lead times on those projects is longer, but I see as we move into this medium term of COVID-19, you're seeing customers building things that are going to come out in the next quarter or 2. So I anticipate that the benefit of pull forwards will be across the entire product line, not more focused on the workforce-related products that we saw in the first quarter.

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

And Jonathan, I would just add to this. It's Frederic. I would just add to that. If you look at some specific examples in the quarter, we had some very large organizations that are really starting to move a lot of their work online very quickly from a remote perspective. Rob, you asked about specific tangible examples. I think the FedEx go live is one that I would really point to. Global 2000 company, have been working with us for a while, was really planning their move to remote work and then all of a sudden called us and said, "Instead of doing that in a few months, we want to do that next weekend." And within 36 hours, they transitioned over 80,000 employees to accessing hundreds of cloud applications remotely. And I mean that's the kind of thing that you can only do with modern identity, and I think we're going to see more and more of that in the times ahead as people really look to move to a modern cloud solution.

Operator

We'll next take Heather Bellini from Goldman Sachs.

Xiaocon Liu ***Goldman Sachs Group Inc., Research Division - Research Analyst***

This is Caroline on for Heather. So my first question is more on that partnership with AWS that you just announced with that new native integration with AWS SSO. I'm curious if you can provide more details on that. And then is there going to be a go-to-market or sales alignment? And then how does that change the competitive landscape versus other cloud service providers such as Microsoft Azure?

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

It's an important integration for us. I think that -- Caroline, I think that if you look at a customer, they are thinking about their technology strategy, and they know they have a cloud alternative in every part of the stack from infrastructure. Is it going to be Microsoft? Is it going to be Google? Is it going to be Amazon? Up to the development layer, is it going to be Java? Is it going to be another language environment? Up to the application, is it work -- is it Microsoft applications? Is it Oracle? Is it Workday? Is it Salesforce? They have all these choices in for -- what they want from us is a neutral third party that connects them to everything. And so it's no surprise. We have the industry-leading integration catalog. We're -- integrated the 6,500-plus systems and not only broad integrations but very deep ones.

And the AWS integration announcement is significant for a couple of reasons. One is that it's something customers want, and they want choice. And they don't want to be locked into one infrastructure provider, and the degree to which we can connect them to Amazon in both a functional way and a very complete and deep way is something that's very important to them. And then the second reason it's important is because it shows the -- our ability -- the ability of our companies to work together. So Amazon contributed to the integration. We worked closely with them to make sure that it was adapted to our platform. And you see 2 leading vendors working together and building a solution that the customers really want. So we're excited about this integration.

Xiaocon Liu ***Goldman Sachs Group Inc., Research Division - Research Analyst***

Got it. That's super helpful. And then, Bill, a follow-up for you on current RPO and billings. I'm curious how we should think about that gap between those metrics. I noticed that this quarter, I think, this gap has decreased to 7 points, whereas last quarter was 12 points. Any color on how we should think about it trending over the next few quarters or even next year would be super helpful.

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

Yes. I mean I think that as you think about billings, as you think about RPO, one of the things we've pointed out before is that current RPO specifically has the advantage from a metric standpoint. It kind of eliminates the variability that you see in billings with invoice timing. As I mentioned in my prepared remarks, we saw some preferential invoice timing in the first quarter that will cause some headwinds for Q2. I think that when we kind of work through it, you should think about that, and you should think about the fact that the current RPO really, I think, does illuminate that variability and probably has in conjunction with looking at sub revenues, in conjunction with looking at billings as a way to really think about the business. But there is always that variability in billings that makes it a little challenging to map it, so to speak, with RPO.

Operator

We're next going with Walter Pritchard from Citigroup.

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

This is actually Drew Foster on for Walter. First one is for either Todd or Fred. With all the announcements coming out of Oktane this year and just considering that it was a virtual event, how would you characterize the lead gen from that compared to what it was last year? And just more broadly on your pipeline, how are you feeling about it right now? And what sort of qualitative pressure tests have you done to give you confidence in the outlook for the rest of the year?

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

Absolutely. Happy to take that. So as you mentioned, we were very pleased with the results from Oktane20 Live. Since we converted it from an in-person to a virtual event, we had 3x the attendance, over 20,000 attendees, including 3,000 for our security road map session alone, which really speaks to the relevance of what we're doing right now for customers. So that's exciting.

When you combine that with us looking at the pipeline, we have a very strong and robust pipeline right now not just for Q2 but also Q3 and Q4. I think the opportunities for us across the board are really good. So as Todd and Bill talked a little bit about, we're trying to figure out specifically in Q2 and Q3 how these decisions are going to be made, but as everyone's moving to these remote work environments, there's a lot of opportunity to help them with their workforce projects, and that's not just net new customers, but there were some very strong upsells this quarter as well in the enterprise base. You saw that reflected quantitatively in the dollar-based net retention. But if you also look at some of the examples, organizations like T-Mobile, which was a great upsell in the quarter, just adding more seats or you look at organizations like Workday that's been a workforce customer of ours now cross selling themselves into customer identity, I think a lot of our existing customers have confidence with us and our platform and our service, and that's playing out in the times ahead.

The other thing I would add that I think is very exciting is, specifically in Q2 and then into Q3 and Q4, you're starting to see more interest in customer identity and access management from large organizations. I think if you look at some of the metrics around commerce in North America, I know that e-commerce has been kind of trending up from 10%, 11%, 12% over the last few years of total commerce. I think it just jumped to something like 25%, 27% of all commerce. That trend is not going away. And all organizations need to find better ways to interact with their prospects and their customers online, in particular, around commerce, and I think that, that's going to be a big opportunity in the times ahead for us.

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

Really helpful. And then the last question for Bill. Just in light of the solid execution, despite a more challenging macro backdrop, wondering if it's caused you to reconsider the margin framework over a longer time frame just specifically in terms of improving sales and marketing efficiency and whether you think that's a sustainable trend as we look out beyond this year and how you're able to go to market differently or spend sales and marketing dollars more efficiently?

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

I'll jump in here quickly. I think it's really important that the company -- let me give you some color on how I think about the framework of how we manage both in general and just in time like COVID-19. I think it's really, really important that we -- first of all, we have big markets we're going after. As we talked about at our Investor Day, $50 billion market across customer and workforce. So we need to invest aggressively. But we also need to make sure we're efficient, and we don't -- we want to build something that's sustainable and has a level of efficiency built in. So it's important to balance those. In the last few months and going forward, we want to make sure we preserve agility. So we're really balancing growth with a world that's more uncertain than we want to make sure we preserve agility in terms of our investments so that when the time is right, we can really double down and capture this big opportunity, which we think the longer term is going to be bigger because of all of this.

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

Yes. And I would add to that, we set the long-term model that we talked about at Investor Day out through fiscal year '24, and to Todd's point, it really was in looking at growth and balancing that with profitability. And we gave 3 different scenarios when we did that, which the scenarios are dependent on what happens in the macro environment. But we're confident about the targets we set at Investor Day as far as the growth and the profitability, and we're still operating to that.

Hello, operator?

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

Hey, Bill, I have a question for you. Just kidding.

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

Sure.

Operator

At this moment, we'd like to turn next to (inaudible).

Hamza Fodderwala ***Morgan Stanley, Research Division - Research Associate***

Is that me?

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

I think I heard Morgan Stanley. Is that right?

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

I think yes.

Hamza Fodderwala ***Morgan Stanley, Research Division - Research Associate***

Yes. Sorry, I didn't hear the operator.

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

Yes. No worries. She was cutting in and out.

Hamza Fodderwala ***Morgan Stanley, Research Division - Research Associate***

Yes. This is Hamza from Morgan Stanley. I just had a couple of questions. So Todd, the first one is for you. I'm wondering if you can dig in a little bit more on the increasing prioritization of identity in the current environment? And also specifically, whether or not you're seeing an increased appetite from customers looking to consolidate to a single identity platform?

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

Identity is a fundamental thing, a foundational thing. And if you get it right, it can free up your technology strategy for years and years to come and set you on the right path. If you get it wrong, it can really hamper you. And I think that -- so what's shifted now in the last couple of months is that identity has always been a foundational thing that people have gotten their head around, but what's more heightened now is the tactical short-term requirements. So you have to deliver MFA because your workers are not on the VPN, or you have to provide a simple single log-in because they don't have a network to rely on in terms of log-in. So I would say those tactical pressure points that are driving the pull forwards are more heightened than they've ever been. But that being said, the fundamental truth that a good identity foundation sets you up for technology progress for years and years is also becoming more true to people as those -- or clear to people as those tactical pain points get solved.

I think the reality is that it's a complex landscape, especially in the large enterprise, so there's a lot of different tools that companies have that serve identity functions. But as we talked about at Oktane, our vision is to build a platform that can support any use case that a company -- a large enterprise or a small enterprise has around identity from workforce to customer to server access and make it powerful and extensible because, ultimately, we think one unified, neutral and independent identity platform is the best for customers and which is why I think we've had so much momentum.

Hamza Fodderwala ***Morgan Stanley, Research Division - Research Associate***

Got it. And just a follow-up question on -- the expansion rate was really strong. I'm wondering how much of that is coming from customers kind of more tactically are they pulling forward or accelerating some of their investments? And how sustainable is that net retention above 120% going forward?

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

Well, we do think, certainly, in Q1, we did have instances where people were pulling forward and trying to rapidly deploy for remote access capabilities. So we saw some benefit there. We do think, though, that the projects and fundamentally what we do for companies with our identity and access management is still something that there's big demand for. We have strong pipeline. We feel like we'll continue to see expansion within our customers. I think that, as I've said before, with net retention rate, that can fluctuate from quarter-to-quarter. And I think as we -- in this environment we're in, this macro environment, we think those fluctuations could be more pronounced as we go through the year.

Operator

Our next question comes from Andy Nowinski from D.A. Davidson.

Hannah Rudoff ***D.A. Davidson & Co., Research Division - Research Associate***

This is Hannah on for Andy. Just a question on the competitive dynamics. Are you seeing Okta compete more directly with CyberArk following their recent acquisition of Adaptive, which puts them into the single sign-on and multifactor authentication spaces, given Okta's server access solution?

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

Yes, absolutely. Happy to talk about that. We do see that swim lanes are starting to blur a little bit, specifically when it comes to some of the legacy privilege access management companies. Look, our leadership position in identity has positioned us really well. And I think you see a very large bifurcation in the market. It was clear before the recent pandemic, but if anything, you see it accelerating now. And prospects and customers are really differentiating between legacy on-premises vendors, where it's difficult to implement, difficult to maintain and in this day and age, difficult to even access your servers and modern cloud solutions.

If you look at our Advanced Server Access product, which we introduced last year, it has done very, very well. And if you think about how people are going to be not only looking to provide modern identity solutions for their employee base and their customer base but also infrastructure down the road, Advanced Server Access is starting to get widely deployed. A great example this quarter was we had an upsell at Zoom, the video conferencing company, where they obviously were massively expanding the number of servers that they were using as well as servers under management, and they turned to our Advanced Server Access product for thousands of servers across multiple different platforms that they have because it's a very easy, scalable way to deploy modern next-generation technology. I think you're just going to see more and more of that in the times ahead.

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

And one of the things that served us really well here in thinking about competition or partnerships, first of all, is we're very customer centric. So instead of trying to dictate to the customers what the swim lanes are, we try to build the best products and the most integrated products and let the customers decide what's best for them. And that's been powerful because a lot of times, vendors, especially in IT and identity, can get really excited about what's the exact swim lane and what is your market, what does Gartner say about my market versus your market. But at the end of the day, the customer is trying to solve a problem. And if Zoom wants to deploy tens of thousands of servers quickly and they think our Advanced Server Access is the best way to do it, that's great, right, and that they want that integrated to their identity provider. And so it's -- we try to be very customer centric and not get too hung up in what we think and try to integrate everything and do what's right for the customers.

Operator

Next question comes from Sterling Auty from JPMorgan.

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

Just wonder if you can give us a little bit of color on what the plan is with Charles Race retiring. Is it going to be internal promotion? Are you going to look to the outside? Is there going to be any kind of changes in the go-to-market management structure?

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

Charles has done a great job, first of all. I mean he's -- I'm really proud to have worked with him. And the great news is he's done a great job, and he's going to be around for a while. So he's going to be around for the next few quarters while we do a search. And the search is trying to find the best candidate in the world. So we're really going into it with a -- casting a broad net and not trying to get any preconceived notions about where that person will come from, and it's going to be the person that can take us over -- growth over the next several years and help us continue our transformation into a broad platform that addresses many use cases and also accelerates our geographic expansion and accentuates our relationship with partners. So it's a big job, and he's done a great job, and I'm excited to find the next candidate that's the best in the world that take us forward. And we have -- I really am proud and thankful of Charles for what he's done. But also the fact that he's doing this in a very orderly manner and giving me a lot of time to find the best person for Okta and not only find the person but integrate them into the team. So it's a pretty fortunate position for us to be in.

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

That makes sense. And then with the broadening product portfolio, as we look at the success you're having in the enterprise segment specifically, is there a new common theme in terms of what the tip of the sphere that's getting you into those enterprise accounts are today versus even a year ago?

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

Yes. I'll jump in and comment on that. I think that what you're really seeing is, and we talked about this a couple of times in the past few earnings calls, is with the depth of the different products, we're really starting to get the opportunity to land in a whole bunch of different ways. And that's why you're seeing a lot of these products becoming so feature complete that you can land with something like multifactor authentication, you can land with a customer identity and access management project and then cross over. So I think, in general, you're seeing us continue to expand and deepen those products. I would say that specifically right now, to our comments earlier, you're seeing a lot of landing with workforce identity and access management, as people are just trying to either get a good handle on how they're going to make this transition, or sometimes they've made the transition, but it's accelerated.

I'll give you a good example. We work with a large financial services organization. They typically had about 20,000 of their 100-plus thousand employees working remotely, call it, 2 quarters ago. So they were used to managing that kind of load over their VPN to access standard applications, and obviously, within 10 days, it went from 20,000 to 100,000. That brought their VPN services down to the knees, and basically, we helped them get that situation back up and running, transform into a much more modern solution for them and then augment it with multifactor authentication. That's a very good example of how they were using a number of products, but they were able to increase that.

At the same time, I would point back to a number of the different cross-sells and upsells we had this quarter that are symptomatic of what we're doing, whether it's M&A like T-Mobile and they're trying to integrate new organizations very quickly or whether it's organizations like Moody's, who has been a smaller customer of ours when it expanded not only workforce but also into customer identity management. And I think that as we go forward and as we broaden out the platform and the suite of products, there's going to be more and more opportunity to land, and I think that's something that's going to portend well for us and the prospective customers as well.

Operator

Our next question comes from Alex Henderson from Needham.

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

I wanted to ask a question on the concept of multi-SSO. I've noticed a number of companies, particularly recent Cloudflare announcement, but also Zscaler's out with one as well as some in the container space, where people are talking about the ability to bring in multiple sign-on systems from various vendors and aggregate them across the platforms. Now as I about understood you guys, in the past, I've always thought you being the definition of the dominant player in the category and the best player always wins the dominant market share, but it seems like multi single sign-on has the opportunity to allow smaller players to last longer and have a better play. Could you talk to the positives and negatives of the adoption of multi single sign-on functionality across different platforms?

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

I don't really know what multi single sign-on means. It sounds like kind of an oxymoron to me. I do know that it's a pretty complex thing that we do. There's -- especially when you look at it from like a lot of vendors do, and I think this is a weakness of a lot of vendors, they look at it from a technology perspective, and they think about how the protocols fit together, and they think about how the bits and bytes flow, and they forget to think about the user. And a user doesn't want multi anything, right? A user wants to get to their work fast.

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

Well, yes, so let me define that rather than you talking about with not knowing. So what they're referring to is when organizations have multiple systems that various groups use to access into their organization. For instance, a contractor may have a different sign-on system than, say, an internal employee versus a sign-on system that's used in one part of a company versus another part of a company. And obviously, it's better to have one. That makes enormous sense, but that's not the real world. Real world is there are lots of different sign-on systems at various companies and various partners and various contractors. And so how do you federate those...

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

That sounds -- to me, that sounds like single sign-on. That doesn't sound like multi single -- I understand we're talking about semantics here, but I -- to me, that sounds like customers want single sign-on, and that's what we do. And we have a bunch of other people that try to do it, too. But we think we're the best, and we're the most integrated. And we're continuing to invest in the platform to make it even easier and simpler, and we're pretty confident about our ability to deliver customer satisfaction around this problem statement.

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

Yes. And Alex, I would just add, if you look at some of the customers, examples that we've talked about in the last few earnings calls, one comes to mind in particular is Albertsons Company. It's obviously one of the largest food retailers in the United States, has over 20-plus banners, right, Safeway, Vons, Jewel-Osco. And they turned to us to create exactly what you're talking about, a streamlined omni-channel experience for the millions of shoppers they interact with each week so that you, as a end consumer, are going to have one way to authenticate, whether you're going into a Safeway or whether you're paying with your Vons card at the gas station. And again, Albertsons on the back end benefits because they get one view of Alex Henderson, whether you're shopping online, in person or through a third party. And so exactly that kind of federation scenario plays out all the time. It plays out also internally, as you mentioned, in M&A environments where people buy companies, sell companies, and they want to make sure that they have one central federated system. So yes, the power of a cloud-based identity solution is exactly what you're talking about, and we're very fortunate that we can offer those kinds of opportunities to our customers.

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

Alex, shoot me a note about a specific announcement from a company, and I'll try to address it on e-mail more specifically. I don't mean to kind of try to side step it.

Operator

We'll take our next question from Gray Powell from BTIG.

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

Right. So I guess one of the things I'm just trying to figure out is, I mean, with multiple customer conversations, it sounds like demand for MFA has really been high. But I've had a couple of customers tell me that if penetration wasn't at 100% before COVID-19, it probably is now. So I mean just to the extent that -- I know you don't want to give an exact number, but just sort of like ballpark, can you talk about where you saw MFA penetration across your customer base or even just the industry before COVID-19? And then roughly speaking, where is it now? And then how much of a growth opportunity do you think is left on that component of the product set?

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

One -- I think it's still -- I mean I think if you look at the pull-forward deals, the interesting thing in my mind has been that it's like the deal moves fast, and it's -- the poignant requirement is MFA, but the -- more of the products than just MFA gets sold. So it's like MFA gets -- it's the pain point, but to really do that quickly and effectively, you need the core directory product and you need the core single sign-on product. So it's more than just MFA alone. And I think that we're still -- it's -- even with the acceleration, it's still been not -- this acceleration hasn't been going on very long. Actually, there's a lot to run on MFA. Most -- a lot of companies still don't have them. Especially in a borderless world where you're outside the network and you want employee flexibility, the penetration of MFA overall is still relatively early.

Operator

This concludes the question-and-answer session for today. I'd like to hand back the conference over to the speakers for closing remarks.

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

Thanks, operator. Well, thanks again for joining us today. We'll be participating in a number of conferences this quarter, including the BofA Global Tech Conference, the Baird Tech Conference, the William Blair Growth Stock Conference and the Morgan Stanley Zero Trust Conference. So there'll be numerous opportunities to pre-engage with us this quarter, so we hope to see you online at one of those events. Thanks.

Operator

This concludes today's call. Thank you for your participation. You may now go ahead and disconnect.