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EDITED TRANSCRIPT
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PRESENTATION

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

(presentation)

Hi, everybody, and welcome to Okta's first Zoom video earnings call. I'm Dave Gennarelli, Vice President of Investor Relations at Okta, and we're here today to discuss our second quarter of fiscal 2021 financial results. 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, COO 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 factors that could affect the company's 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. I hope you like this new video format, which I think personalizes these earnings calls a little more. I also hope that you and your families have remained safe and healthy since the last time we spoke.

With the ongoing pandemic, Okta, like so many organizations around the world, remains fully remote. Last quarter, I discussed how Okta had already been moving down the path of creating a workplace of the future or what we call dynamic work. The pandemic has accelerated our move to dynamic work, which is our initiative to build a more agile, flexible work style into our culture to ensure that all our employees have great work environments, experiences, benefits and flexibility regardless of their location. We're fortunate that the nature of our business allows us to operate successfully in this dynamic work environment, and I couldn't be more proud of the team at Okta and what we've accomplished.

It's this agility and the recognition by more and more companies of identity's importance that has enabled Okta to continue to execute at a very high level, and I'm pleased to report that we delivered another quarter of strong financial results. Second quarter total revenue grew 43% and the subscription revenue grew 44%. We also saw continued strength with total remaining performance obligations, or RPO, growing 56%. Okta is helping organizations around the world accelerate their adoption and deployment of cloud applications in remote access and reimagine their digital customer experiences.

While emergency implementations during the first phase of the pandemic, like the one we did for FedEx last quarter, are largely behind us, companies are reevaluating their road map to modernize their identity systems. And Okta's platform is the linchpin of the new cloud technology stack. We believe that the world will not return to the pre-COVID work environment. In fact, 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 by the COVID environment as organizations are rapidly evolving their digital strategy to survive the pandemic while their remote work environments continue to grow.

During this crisis, our customers are using Okta's platform more than ever. From March through July, there was a 1-day record of over 145 million logins, and the number of unique app logins increased almost 70% to nearly 16 billion. Total MFA usage increased nearly 3x over the same period last year. These numbers reflect the massive number of new remote workers around the world and our strong growth in total customers, especially large enterprise companies.

Our ongoing focus to grow our base of large enterprise customers continues to yield results and is reflected in the addition of 105 customers with an annual contract value greater than $100,000 in the second quarter. Once again, over half of these additions were from new customers. The total number of $100,000-plus customers is now nearing 1,700. We also crossed a significant milestone in Q2 and now have over 100 customers with an annual contract value greater than $1 million.

Here are just a few notable examples of large enterprise wins and upsells, which come from a wide range of industries. The LVMH group, the world leader in luxury, was a new workforce identity win. They chose Okta as the standard for their internal identity and access management requirements for both the group and its brands. Standardizing in Okta will allow LVMH to consolidate a complex multi-organization and multi-vendor identity environment into one that will also lead to improved security, greater agility and faster integration of the LVMH brands within a consistent framework.

Equifax, a Global 2000 information solutions company, was a great customer identity upsell this quarter. The company originally selected Okta in Q1 this year as its identity standard to secure more than 11,000 employees globally. As Equifax continues to strengthen its position as a security and technology leader, the organization looked for a customer identity platform to both enhance and unify capabilities to support over 100 million external users with speed and ease. Equifax will use Okta customer identity products to protect and power seamless user experiences for Equifax' customers, business partners and workforce.

A Fortune 100 technology company was a notable upsell in the quarter. The company had initial success with Okta across multiple business units over the past couple of years. The ease of deployment, superior user experience and breadth of identity use cases led to the company's decision to standardize on Okta for its entire workforce of 100,000 employees and contractors. Additionally, to support

the company's transformation to a subscription software business, it will deploy Okta's customer identity for millions of customers across all of its sites and products. Okta will help the organization quickly and securely integrate acquisitions and launch new products to serve its commercial customers, including those requiring FedRAMP compliance.

In order to win and expand within these large organizations, we are focused on expanding our platform to better serve them. By developing more products and features that can leverage more integrations, we can unlock more use cases, attract more customers and generate more data insights that can be harnessed to build better products that make our customers more successful. All of these create powerful network effects. Network effects have been a powerful driver for Okta, as is our commitment to providing our customers with the best technology.

One of our foundational values at Okta is love our customers. As part of that, we've invested heavily in our systems and infrastructure to help ensure our customer success. For example, we recently announced a major milestone in cloud reliability and uptime, offering 99.99% uptime to all customers in every region of the world. This lays the foundation for a new standard of reliability across the cloud industry, not only for the betterment of our customers but any organization pursuing digital transformation.

Loving our customers is also reflected in the technology partnerships we established. In Q2, we announced that Okta, CrowdStrike, Netskope and Proofpoint joined forces in a coordinated effort to help organizations implement an integrated zero trust security strategy required to protect today's dynamic and remote working environments. Coordinated efforts like this allow us to better serve our customers together.

Last quarter, I talked about a number of new products and features that we introduced at Oktane. These new products advanced our transition from offering a portfolio of products to a componentized platform. We look forward to sharing more of this new product momentum as well as some additional enhancements we're making to the Okta platform at our second annual Okta Showcase event on October 7.

Today, every organization is rethinking how they engage with their customers as consumer spending and sentiment turns digital. Forward-thinking execs are viewing this as an opportunity to accelerate their digital transformation initiatives while also seriously questioning any further on-premises investments in core identity infrastructure. But digitally reimagining the business is a massive undertaking because nearly every part of an organization is affected by a digital transformation. For Okta, this accelerates the trends we've been experiencing in the $25 billion customer identity or CIAM market.

At this year's showcase, we will share enhancements we're making to our CIAM solutions and how we're more tightly integrated into every customer system at every layer of the technology stack. Our CIAM business now represents 24% of our total annual contract value and grew 72% in Q2. That's tremendous progress in just a few short years.

The CIAM market is predominantly composed of homegrown systems, and we've built a platform and a set of products that make it an easy decision for an organization to implement Okta as the identity solution for their customers. We've had particular success with government agencies and financial institutions including second quarter CIAM wins with the state of Montana and Union Bank & Trust. Please stay tuned for more details on this virtual showcase event.

It's clear that identity is central to a robust security posture for both workforce and customer identity. The continued adoption of cloud software will inevitably lead to more apps, more devices, more digital transformation and heightened requirements for usability and security. And again, these trends are only being accelerated by the COVID environment. We've established Okta as the market and technology leader, and we're confident in our strategy to attain our goals.

While we're hyper-focused on executing in today's environment, I thought it would be helpful to share some of my thoughts around the long-term vision for Okta. So if you look out a little further on the time horizon, as cloud adoption continues to proliferate, 5-plus years from now, we see a world where there are just a few first-class clouds that really matter inside a company. These clouds might be for collaboration, CRM, infrastructure and ERP, for example. Our long-term vision is for identity to be one of these first-class clouds. We believe identity is key because it facilitates choice and flexibility while enhancing security and reducing risk in all other technologies.

In our long-term vision, we see Okta establishing itself as a standard for digital identity. In order to achieve this, we will continue to grow aggressively by adding more users, more customers, particularly large enterprise customers, expanding internationally, adding more strategic partners and increasing the use cases that come from building out our platform and accelerating the network effects that I mentioned earlier.

I hope that gives you a little better understanding of how we're thinking about building Okta into the next iconic cloud company. We couldn't be more enthusiastic about our near-term and long-term opportunities. Having said that, we continue to be mindful that many organizations are going through incredibly difficult times, and we're doing what we can to lend our support to the business community and to the local communities in which we operate. This includes our contributions through our social impact initiative, Okta for Good, to help local organizations serving the most vulnerable and to support positive social change.

Thanks again for your time. And now I'd like to turn the call over to Bill to walk through more details about our second quarter financial results as well as our financial outlook. 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 a few of the notable highlights in my commentary this afternoon.

We had a strong second quarter, with particular strength in revenue, RPO, profitability, cash flow and net retention rate. I'll now touch on some of the second quarter highlights and then go into our outlook for Q3 and the full year.

Turning to our Q2 results. Total revenue increased 43%, driven by a 44% 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 56% to $1.43 billion. Current RPO, which represents subscription revenue we expect to recognize over the next 12 months, also experienced strong growth of 48%. 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 27%. There were a few things that impacted Q2 billings, so I'll walk through the notable items. As expected, we experienced some mild pandemic-related business headwinds. And as I mentioned on last quarter's call, we experienced some beneficial invoice timing in Q1 that created a modest headwind for Q2 billings growth. Q2 billings was also negatively impacted by our strong upsell activity.

That may sound counterintuitive so let me explain. When large enterprise customers expand their purchases with us, they often want to align new contract start dates with existing contracts, and thus, we only bill them for the stub period before the new large contract starts. This delay of the new contract billing creates a headwind on that quarter's billings duration, but the new contract ultimately becomes a tailwind to future quarters because of the increased contract size. As we've said before, our current RPO is an important metric because it eliminates these type of variances, which have no impact on revenues.

Turning to retention. Our dollar-based net retention rate for the trailing 12-month period was 121%, consistent with last quarter. We have not experienced any degradation in gross renewal rates during the pandemic and continue to experience strength with customer upsells, particularly with our enterprise customers. 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 from 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 28%, which was lower than expected, primarily due to continued reductions in travel and office-related expenses. We also saw lower employee-related costs as the pace of hiring has moderated due to the current environment. Headcount increased 28% to almost 2,500, with the increase primarily in our customer-facing teams as we continued to spend to support our strategic initiatives.

We are pleased to achieve profitability in the second quarter, which was driven by our strong revenue performance and the lower-than-expected expenses I just mentioned. We do not expect to maintain consistent profitability in the near term, particularly when the business environment begins to normalize and the employees resume traveling again. We also look to increase our investments in fueling our business globally, which includes increasing headcount within sales and marketing as well as R&D.

We generated cash flow from operations and free cash flow of $11 million and $7 million, respectively, which yielded a 3.4% free cash flow margin. Free cash flow saw a typical seasonality, offset by lower cash outlays due to a reduction in expenses related to the pandemic. We ended the second quarter with a strong balance sheet, anchored by $2.5 billion in cash, cash equivalents and short-term investments. The sequential increase was driven primarily by the issuance of $1.15 billion of convertible senior notes.

Moving on to our business outlook. We remain optimistic about the demand for our products and are raising our full year 2021 outlook. Our revenue guidance is predicated on our strong second quarter results but also on our expectation that pandemic-related headwinds that we saw in the second quarter will persist through the second half of the year.

For the third quarter of fiscal 2021, we expect total revenue of $202 million to $203 million, representing a growth rate of 32% to 33% year-over-year; non-GAAP operating loss of $3 million to $2 million; and non-GAAP net loss per share of $0.02 to $0.01, assuming weighted shares outstanding of approximately 129 million. For the full year fiscal 2021, we now expect total revenue of $800 million to $803 million, representing a growth rate of 37% year-over-year; non-GAAP operating loss of $13 million to $11 million; and non-GAAP net loss per share of $0.03 to $0.01, assuming weighted shares outstanding of approximately 127 million.

In summary, we had a strong second quarter and performed well given the current environment. We believe it's prudent to continue to expect some near-term economic uncertainty as the business impacts stemming from the pandemic further unfold. That being said, our continued execution and the accelerated tailwinds of cloud, digital transformation and security position us well to achieve our long-term financial targets. Okta has developed a solid 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. Dave?

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

Great. Thanks, Bill. (Operator Instructions)

QUESTIONS AND ANSWERS

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

So with that, your first question is going to come from Sterling Auty at JPMorgan.

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

All right, great. Can you hear me okay?

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

Sounds great, Sterling. Nice to see you.

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

Well, it's good to see you as well. Thanks for doing it this way. I think that it's certainly a step-up. So I wanted to ask about the partnership with CrowdStrike, Proofpoint and Netskope. And in particular, what does this tell us about what is happening in the competitive landscape vis-à-vis Microsoft?

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

The -- so yes, we're really excited about -- we're -- I mean, as you know, those -- especially like you, Sterling, and other folks that have followed us for a while, we're really -- our culture is really about being integrated with the ecosystem. We have -- our claim to fame is the most integrations and the deepest integrations, something we've maintained and extended over the course of our history. And so particularly around security these days and this concept of zero trust security, it's -- everyone's excited about it, but customers aren't quite sure, in many cases, the specifics of what it means.

So I think the most exciting thing about this partnership is that you have these vendors coming together with an integrated solution both on the product side but also on the go-to-market side with a consistent message about what it means to be zero trust secure and how you get there. And so that's -- I think it's going to simplify things for customers.

And I think that to your question about Microsoft, the zero trust security is about securing access to all of your applications. And I just think it's unrealistic to think you can get that from one company, one platform. And that's why it's important that the vendors like Proofpoint and Netskope and Carbon Black are coming together -- or CrowdStrike are coming together to define this architecture and clarify it for customers. And I think ultimately, customers are going to benefit, which is going to benefit all of our businesses.

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

Great. Your next question is going to come from Hamza Fodderwala at Morgan Stanley.

(technical difficulty)

Okay. Why don't we go to the next question from Rob Owens at Piper Sandler.

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

So thanks for the color around the customer identity piece. And I was hoping you could go into a little bit more detail just in terms of what you're seeing here. Is this typically going into the installed base? Or is it somewhat the tip of the spear, where there's competitive differentiation in this market? And lastly, for Bill, could you remind us of any TAM analysis you guys have done of the customer side versus the enterprise side? And I'll take those 3 as my 1 question.

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

Very efficient, Rob. Nicely done. Customer identity is a really important market for us. And I think that it's a little bit different than the workforce market in that the dynamic is -- it's a build versus buy. And the marketing and the positioning of customer identity is all about making sure the market understands that there's a better way. They don't have to build login and customer synchronization and registration and 2-factor. They don't have to build that themselves. They can get back to focusing on their -- the features that are going to differentiate their company and their app. And we can take care of the stuff we're good at, the identity and security.

So there's always multiple systems involved and there's some legacy, but largely, it's build versus buy. And I think that when you are catalyzing a market like this, and we clearly are, if you look at the numbers, the 72% growth, the 24% of our revenue, when you're catalyzing a market, it helps to be a vendor that has proven that we can make customers successful with our broad workforce customer success. So I think we're in full position here and we're working hard to extend that lead.

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

Yes. And Rob, to your question about the TAM, as we talked about this at Investor Day back in April, and at that time, we've evaluated that our TAM for workforce is $30 billion and the TAM for customer identity is $25 billion. So very large TAMs on both sides. And for the reasons that we've talked about before, we think there's huge opportunities for us to grab a lot of that TAM in the future.

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

And then also, just one more thought on that. It is an important question. If you -- the concept I was speaking about of Okta being one of the first-class clouds or the primary clouds in the enterprise in the future, the degree to which we can broaden and support multiple use case, both workforce and customer, it gives us a much better chance to establish that position as one of these first-class clouds.

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Enterprises are going to trust clouds that can do more things for them. And the more use cases we can support and handle in those critical paths that lead to the customer success, the better our success at establishing that first-class cloud is going to be.

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

Okay. We're going to try Hamza again from Morgan Stanley.

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

What do you think Hamza would ask if he was going to ask a question?

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

Here he comes. Hamza, unmute your line.

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

Can you guys hear me?

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

Yes.

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

Okay. Success. Sorry about that. Todd, this question's for you. I wanted to ask a little bit about the momentum you're seeing in the customer identity space. Particularly the deal with Equifax, which I found to be quite notable, just given the size of the user base and obviously, the sensitivity around that data. So can you speak a little bit more about what you're seeing in customer identity, particularly in this more sort of heightened threat environment?

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

Yes. The dynamic in customer identity, as I mentioned, it's companies -- so what's really been clarified for companies over the last 3 months with COVID is it's very -- it's clarified the priority of digital transformation in getting these direct result -- these direct relationships with consumers, with the website and the mobile app. And it's clarified what they have to do. Everyone needs a website. Everyone needs a mobile app. So there's not a lot of confusion about that anymore.

So -- and what happens with -- when you have that realization, it becomes very clear that identity is a primary part of that because everyone knows when you have a great web experience or a great mobile experience, it leads with that application knowing about what you're trying to do, your preferences, your history with that company. So identity feeds right into that. So that's becoming clear, which is great for our business and great for this -- really, this broad second flank of our business, which is customer identity.

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

Excellent. Your next question is going to come from Matt Hedberg at RBC.

(technical difficulty)

All right. We're going to try Walter Pritchard at Citi.

Walter Herbert Pritchard *Citigroup Inc., Research Division - MD & U.S. Software Analyst*

All right. Can you hear me?

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

Yes. That's great.

Walter Herbert Pritchard *Citigroup Inc., Research Division - MD & U.S. Software Analyst*

All right. Good deal. So a question for you just, Bill, I think, for you on seasonality of billings. How should we be thinking about things? I think we've seen other companies go through this process where more of the business gets pushed into the renewal and with co-term

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deals. Could you just help us understand how we should think about that and maybe any sort of magnitude commentary around what that means for the seasonality?

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

Yes. Sure, Walter. So as we've said before, the timing dynamics in billings really does exemplify where we think current RPO is an important metric as it eliminates those kind of variances, and those variances really have no impact on revenues. Specific to the timing question, as I talked about in my commentary, we did have certain timing elements with billings this quarter as far as some of the invoicing that was in Q1 got pulling out of Q2, which had an impact on Q2, the coterminous billings that you talked about, which is the sub billings when we sell into larger enterprise.

And the way we think about that is that, that billings really does -- is going to balance out. The timing is really going to balance out during the course of the year. So one of the ways to think about it, to give you some measure of it, so to speak, is that in the second half, we expect that our subscription revenue growth and billings growth to narrow to about a 5% to 6% delta from the 11% delta that was in the first half of the year.

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

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

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

This is Jonathan Ho. Great. So just wanted to get a sense from you, just regarding what you're hearing from customers and maybe their willingness to spend. Are you seeing any situations where they're perhaps downsizing deals or delaying deals? And when you're renewing customers in impacted industries that have lower headcount, are you seeing any impact from that?

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

Jonathan, it's Frederic. Thanks a lot for the question. We are not seeing any impacts, as you mentioned. Our ongoing focus on enterprise customers continues to yield, I think, very good results. We now have over 100 customers with ACV greater than $1 million. We've got 105 net new adds in Q2 of customers paying us $100,000 or more. And I think about half of those were net new logos to Okta.

So we're not seeing any slowdown in terms of customers either coming in with smaller purchases or interest than we thought they might and/or renewing. In particular, we've seen no renewals on the workforce side in the enterprise that are lower than what they were originally doing. And if you think about it, right, as everyone's moving remote and as everyone's trying to integrate more in this world with not only their employees but also their customers and partners and vendors, they need to actually increase the way they're doing this digital enablement and communication, and we're starting to see a lot of that in the business.

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

Great. Next question is going to come from Andy Nowinski at D.A. Davidson.

Andrew James Nowinski *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Great. So a lot of people seem to be worried about a potential deceleration revenue growth at Okta. Yet there was no change in your CRPO, your RPO or your net retention rate. And I know you talked a lot about facing some mild headwinds from the pandemic this quarter, but it doesn't look like it's showing up in your results. So if you are seeing some headwinds from COVID, I guess, has your product portfolio improved or your competitive position improved that enables you to sort of offset those headwinds from COVID and maintain these growth rates?

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

Yes. Andy, what I would say is you're right that our current RPO, our total RPO both saw strong growth. And our net retention rate was 121%. So very strong. So we're obviously pleased with the results of the quarter and the strength in the quarter. We did see those mild pandemic headwinds. Frankly, they were not as strong as we thought they would be. And so I think what the -- the movement of

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companies to decentralizing how they're working with the fact that companies are seeing with their customers, they're transitioning to more of an online relationship with those customers are both just big impacts for us, big tailwinds for us that are just accelerating some of the overall mega tailwinds we've talked about before, and that's really what's happening.

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

Yes. And Andy, just to add to that, if you think about the market tailwinds and what's really driving our business and has been for many quarters and will for many years to come, it's about these big changes, right, around the adoption of cloud and hybrid IT, this digital transformation and everyone now needs to prioritize security more and more. And these are not short-lived. These are not recent and these are not going away. So as the world continues to figure out how to work in COVID and then as the world starts to come out of that in a post-COVID world, this work environment of everyone working more remotely, doing more digital interaction, the importance of customer interactions on mobile apps, online, this is only going to continue to grow.

And so if you think about the TAMs that we're in, I'm very pleased with the results. And as an entrepreneur, if you look at what we've done over the last 11, 12 years, we're very proud of the progress we've made. But these markets are tens of billions of dollars and they're continuing to grow very fast. So I think there's a huge opportunity ahead, and I think that we're fortunate that we can help a lot of customers be successful in these challenging times.

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

All right. Great. All right. We're going to try Matt Hedberg at RBC again.

Matthew George Hedberg *RBC Capital Markets, Research Division - Analyst*

I guess for Todd or Frederic, I wanted to ask about Advanced Server Access, which is an exciting TAM expansion opportunity. Obviously, started with server access but logically could grow into databases and container access. A little bit more there. And then, Bill, could you talk about linearity and perhaps how August is trending thus far?

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

Advanced Server Access is -- it's a newer product but the potential is massive. I mean when we think about identity for infrastructure, the broad category that Advanced Server Access plays in is one day down the line, it could be as important to our business as customer identity or workforce identity. It's smaller and much more nascent but it's that exciting. And the exciting thing about it is there's a big fundamental change going on in how not only does every organization have to build new apps and new websites but there's a fundamental shift in how they're built. They're built much more dynamically. They're -- they use cloud servers and cloud infrastructure to burst capacity and rapidly iterate.

And we think Advanced Server Access, and more broadly speaking, infrastructure identity is the modern way to help manage and secure that environment, which if you about -- if you look at what's most important to companies, it's building these customer-facing digital transformation solutions and be able to do that at scale and build them securely in an agile way. You need good tooling and good infrastructure and good security to do that. So we think it's a very exciting future product area for us.

And the Advanced Server Access product specifically is doing well. It's -- we're seeing -- it's doing well in terms of its bookings plan, but also as important, it's doing well in terms of adoption. So we're seeing that companies that are really doubling down on digital transformation during COVID are using it to help make them more effective in securing customer success. Anytime you're building a new product area, you have to have that customer success, that adoption, that robust usage. And that's what we're seeing, which is as exciting as anything else there.

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

Matt, I would say with linearity, we're really not seeing any difference. It's been -- it's still very consistent with what we see -- what we did see prior to the pandemic. So that stayed pretty constant. As far as August, what we're seeing in August is what we incorporated into the guidance we gave for Q3.

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

All right. Next question up, we have Gregg Moskowitz from Mizuho.

Gregg Steven Moskowitz *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Good to see everybody. Congrats on a good quarter. So Todd, I recall you mentioning a couple of months back that hosting Oktane as a virtual event resulted in more than 5,000 sales leads versus, I think, a few hundred last year. So presumably, your pipeline is far larger than it had been. But can you talk about your expectations for net new logo growth going forward? Also, do you expect to see any average -- any change in average sales cycles?

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

Pipeline is strong. It started with -- we're investing a lot in pipeline just because the business is growing and we got to keep that pipeline growing. And Oktane20 Live was a great step there, as you mentioned. I think that it's -- there's one thing about generating pipeline. And there's actually been a lot of questions about if people were sheltered in place, would it impact positively pipeline because they had more time to take meetings and so forth, but would it actually translate into deals closed? And we're getting a little bit in Q2, but into Q3, we're really starting to see it will really be good proof points about how those deals are closing, and we're optimistic about that as well. So it's pretty positive in terms of the outlook for the business.

That being said, it is -- we are being measured in terms of -- there are unknowns like we've talked about in terms of like macroeconomic headwinds and other uncertainties in the world. So as optimistic as we are, we're also being prudent about planning the future as well.

Was there a second part of the question? I forgot.

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

We moved him back to the attendee list here, but we can come back to that. Next up, we have Dan Church from Goldman.

Daniel Peter Church *Goldman Sachs Group, Inc., Research Division - Associate*

This is Dan Church on for Heather Bellini. I just have a couple of quick ones for you. You obviously -- you touched on the billings headwinds in the quarter. Any additional commentary you can provide regarding duration in the quarter and what we should expect for the back half of the year? And then are you seeing any change or noticeable change in the environment in terms of pricing or discounting request from customers, particularly in the impacted verticals?

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

Yes. Dan, I would say on the billings, as we discussed, the -- we did see those timing differences that really did impact billings duration, specifically in certain circumstances where we purposely did short-duration invoicing to help some customers that are in impacted industries. And then as we discussed, with the large amount of upsell that we have in the large enterprise customers, we did see an impactful on billings, doing sub billings, which is beneficial in the long term because obviously, we're adding to the contract over time. And as I said, we believe that most of these timing variances or these timing impacts that were negative headwinds in Q2 will balance out during the course of the year.

And as I said, I think that the way to think about that is when you think about subscription revenue and the delta of that growth to billings, we think it will be about 5% to 6% in the second half of the year. And that's a smaller delta than the first half of the year, which is 11%. So as you can see, it kind of time -- those impacts will balance out during the course of the year.

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

All right. Next up, Gray Powell from BTIG.

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

Okay. Great. Can you guys hear me okay?

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

Yes.

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

Okay. So I mean I know there's still a lot of uncertainty in the macro environment and you guys have called that out. But it does seem like things are turning pretty well. You had a good current RPO number. So I'm just curious, like how do you feel about the visibility that you have on demand today versus the March and April time frame?

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

Yes. I mean I think that as we said in the second quarter, we didn't see the impact from the pandemic, the headwind impact that we had anticipated. But we did see an impact. And so we're -- as we think about the guidance we gave for the full year, we did incorporate that we think those impacts will continue through the balance of the year. And we're being prudent about that from the standpoint that we're still in the midst of this economic uncertainty. And I think that even though we're feeling very good about the business from the performance of the quarter, from the strong pipeline, from the fact that the engagement we're seeing with customers, but we did want to be prudent about the fact that there still is not complete visibility as we go through the rest of the year. So we did factor that into the guidance that we gave today.

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

That being said, Gray, I would just add on that when we talk to -- when you talk to the field and you think in particular about enterprise and the name groups, they're seeing a lot of very good activity not only with existing customers. You see that in the dollar-based net retention that continues to remain very, very strong. And then obviously, a focus on customer's success will drive that because they're comfortable with us. They know how we work. They understand the products and platform. It's easy to buy more from an existing vendor that you're comfortable with.

But also net new logos. And these conversations are more and more at various senior levels inside these companies. We're now talking to the largest companies in the world. And I think the opportunity is going to be very exciting in the times ahead. Some of that certainly will come in the second half of the year, but we're also preparing for what's going to happen into next year and beyond. And I think the future portends very well from that side.

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

Dave, Gregg Moskowitz chatted the second part of his question. He was saying that he was wondering about average sales cycle. Do we see -- do we expect any changes in average sales cycles going forward?

And I just wanted to say, we don't really model that in, in terms of our expectation. We see those being pretty consistent in the history, and we see that being consistent going forward as well. So hopefully, that answers your question there, Gregg.

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

All right. Next question is going to come from Alex Henderson at Needham.

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

I was hoping you could talk a little bit about the machine-to-machine identity market and to what extent the server access is able to do domain-domain communication between applications and to what extent you're tying into identity as, which is obviously the key to security in Kubernetes deployments.

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

Yes. It's -- I would say that most of our product suite and our orientation is definitely around person identity. But there's 2 parts of our product that are starting to do more with machine identity. And one of them is our product called API Access. And what that does is it basically -- it serves up an identity protocol called OAuth as a service and helps people bind their identities in Okta to anything they want to program to. So that's -- you see some use cases in that product around machine to machine.

And then as you mentioned, Advanced Server Access is -- it's all about -- it's all -- it kind of depends on when you buy machine to machine. But usually with Advanced Server Access, there's a person involved as well. The one -- the biggest investment we're making in machine identity is our platform service, which we unveiled at Oktane, called Okta Devices. And what this -- what Okta Devices does is it basically embeds Okta inside of the client operating system and serves up key data points about that machine to the Okta policy engine so that customers can make easier, simpler policies for users and make them more secure.

The killer use case there is the capability called Okta FastPass where you can log in just with -- by identifying your biometric to the machine, whether it's Touch ID or Face ID, and you're in all your apps. And that combines that machine identity because the Okta Identity Cloud can verify that, that machine on the client is who -- it's your machine proven to be your machine, and it can just get you in without any other checks that you, as a user, have to do manually. Of course, it's checking under the scenes that machine identity, but it's a powerful capability. So we're pushing forward on all those fronts, and I think it's really paying off to the benefit of customers.

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

All right. Next up, we have Taz from 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*

Taz, you're faint. But we can make it out, I think.

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

A quick question on the new customer momentum. You had a strong retention rate and strong new customer momentum. Any more color on the new customer dynamics this quarter in terms of deal sizes, type of customers, type of products customers are buying? Any change from what you saw pre-COVID in the new customer momentum?

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

Yes, absolutely. Happy to talk about that. We added 550 customers this quarter, which is on par with what we've been doing in the past quarters. So a lot of similarity there, a lot of continuation of the good work we're doing, a lot of interest in the Okta Identity Cloud, obviously. And as we get into more and more use cases, we're going to be able to help these customers with more and more things. I think what's particularly exciting is the traction that we're getting in the enterprise, which we mentioned a little bit already on this call. But we're very happy with the 100 customers paying us over $1 million, and half of the 105 net new customers of $100,000 are net new logos to us.

And that's just great. That shows the continued opportunity and momentum in the enterprise, which I expect will continue for a long time. And while these results are very good and we're very proud of the hard work the team has done, I think when you look at the opportunity in the enterprise and help these customers not only with the specific challenges and opportunities they have today, but as they think about, going forward, how their businesses are going to change and some of the dislocation that they're going to face, I think this is huge opportunities for us. And we're really excited to try and take advantage of that and help these folks be successful.

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

Yes. I'll just throw in there quickly, too, that the usage of the service is very high. We mentioned in the stats in the prepared remarks about app logins and multifactor. But that's true across the board at all products. So that means customers are having success. They're adopted. They're benefiting from the service, which in all these -- all the craziness going on in the world right now, that makes us feel very good.

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

All right. Next up, we have Shaul Eyal from Oppenheimer.

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

Congrats on the quarter first. Congrats on the virtual call, thumbs up, without a doubt. Todd or Freddy, what has been the initial reaction to the Workflow product over the course of the past few months? And also maybe just a word about the education vertical this quarter.

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

Yes, absolutely. The Workflow product is doing very well. As you mentioned, that was something that we GA-ed at the beginning of the year. It's progressing very, very well. Customers are finding a lot of great use cases with it. Right now, it's primarily focused on how we can integrate a lot of the HR systems and make sure that the integrations are flowing properly downstream to all the other applications. The typical use case there would be on the workforce side around the employee JML, the joiner, mover, leaver problem that people always have when you're onboarding a lot of folks, when they're changing roles or when they're leaving the company. So there's a lot of great progress there.

And then on the customer side, obviously, now you can not only register and provision folks but also entitle them to the right products. So there's a lot of great usage there, and there's a huge opportunity for us in the times ahead as we broaden out the use cases around Workflow. So product is doing very well, and I think that there's a very bright future for that product as we dig into it.

And then on the second side, from the EDU side, we are continuing to see a lot of strength in the business, obviously. As a lot of these, both, I would say, high school but also secondary universities are going online, they're having to figure out how they're going to interact not only with all the students but all the professors and everyone that's associated with that. I think we've given some examples in the past. I think Seton Hall was a good one that we talked about last quarter. And we've got more and more of these coming. So yes, that is certainly something that is going well for us. And I think it's something very important as we help the education system figure out how it's going to work in this increasingly digital and modern world.

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

All right. Next up, Pat Walravens from JMP.

Patrick D. Walravens *JMP Securities LLC, Research Division - MD, Director of Technology Research and Equity Research Analyst*

Great. All right. Todd, so how do you make Okta the best place to work when everyone is working remotely?

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

It's something we've worked on a lot. We actually -- when we have our strategy for each year, our strategic plan. And it has -- it depends on the year but it has 5 or 6 high-level priorities. And when COVID-19 hit, we actually shifted around the strategy and made the #1 method, we call it a method, it's basically the strategic focus for the year, be -- it's called something called Thriving at Okta. So making sure that the employees were taken care of, were motivated, were happy, were able to work effectively. And culturally, we maintain that cohesive group. So it's something we've thought about a lot.

And it's -- the strategy and approach is quite -- it's quite thorough and something that I've personally worked on a lot. And I would say that if I were to summarize it, the one thing is like the leadership team needs to be really present and open and transparent and over-communicate and -- because it's hard to make all the perfect decisions when it's such a dynamic environment. But we can make sure that we're very communicative and transparent and reasoning. And it makes all the employees feel very bought-in as a builder and owner of the company. And I think it's benefited us. And it's a big part of the reason why we've been able to execute over the last 6 months or so.

But we've also -- it's not something that you can like turn on like a switch during a crisis like COVID-19. It's something we've built up over many, many years, the openness and the leading by example and so forth. So lucky to have that foundation that we could capitalize on as we've gone through this year and we've been going through so far.

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

Okay. Next question is coming from Mandeep Singh from Bloomberg.

Mandeep Singh *Bloomberg Intelligence - Senior Analyst*

Excellent. So I was curious if you can talk about how much adoption you have seen from increased VPN use with something like Citrix. And also maybe characterize your win rates against Ping Identity.

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

Yes. Thanks, Mandeep. Certainly, the Okta service is one that can help with all sorts of existing infrastructure that you have. We integrate very well into a lot of the on-prem infrastructure. Our Okta Access Gateway product that allows people to take advantage of that has done very, very well, and it's helped us a lot in the large enterprise over the past quarters. And that's continued to accelerate. Frankly, we integrate well with VPNs, and if you have a VPN that you're happy with, we most likely got it pre-integrated into the Okta service.

That being said, I think people are also taking advantage of this opportunity to leapfrog technology and think about how they're going to deprecate their VPNs because VPNs are really good when you're thinking about accessing on-premises infrastructure, servers, software, hardware or other things. But as people are moving more and more to the cloud, as they're moving a lot of these contact services to the public cloud and allowing a lot of authentication happening in the cloud, doesn't make that much sense to draw all the traffic back to your network just to push it back out to the public cloud.

And in fact, we have a number of customers, including some large financial institutions, where they ultimately had to move from 10,000 or 20,000 employees working remotely on a VPN to instantly having 100,000 employees over a weekend going home and VPNs are just not standing up. So while we work fine with the existing VPN technologies, frankly, I think it's something that you're going to see more and more transitions off of as the Okta Identity Cloud really continues to help customers.

On your second question regarding Ping Identity, look, there's a set of legacy software providers out there that have been providing services for a number of years. Frankly, Ping Identity is 1/3 of our size, growing half as fast. It's not something we really focus on. We do see them from time to time but a lot of times, it's a situation where people say, "Look, I have Ping running. Can you integrate to it? But over time, I'm going to replace it as I want to go modern." And as you see all the shift happening to -- both on the workforce and customer side to modern identity solutions, I think it's going to be a very clear differentiation in the times ahead.

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

All right. Our final question comes from Joshua Tilton at Berenberg.

Joshua Alexander Tilton *Joh. Berenberg, Gossler & Co. KG, Research Division - Associate Analyst*

Yes. I just wanted to touch on the competitive landscape a little bit. So if you think about Idaptive, they have numerous overlapping asset management products. They have single sign-on, MFA and life cycle management, and they're now under the CyberArk umbrella. So how does this change your competitive dynamic with the large enterprise access management market?

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

Yes, absolutely. I think what you're seeing is the importance of enterprise identity as a public cloud offering. And I think that what you're going to see is more and more folks are looking to the core of identity as being very central to what they're trying to do across their enterprises, right, again, on the workforce or customer side. I think that's a very good example of a legacy software provider with an on-premises solution trying to find a way into the modern version of enterprise identity and an enterprise identity cloud.

We don't really see them much in the market. We know the Idaptive product suite has been around for some time, and I don't think it had that much traction. So we pay attention to all competitors, of course, but we're really focused on customer success. And customers are looking for, one, broad, integrated, modern identity solution that helps them not only with the problems they have today but the ones that are going to come in the future. And we think that we're very well positioned to help customers not only with core identity but a lot of the adjacencies that you might see coming down the path.

And we don't think about it in terms of -- there's a privileged access management market. We think about it in terms of what are the customer problems. We can help them with products like Advanced Server Access. They're well integrated into the Okta service, which is something that people know and are comfortable with, and then we kind of move on to make them successful.

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

All right. Thanks, everyone. I hope you enjoyed the new format. And before you go, just a couple of quick announcements. We'll be attending the virtual Citi Tech Conference on September 9. And as we mentioned earlier, the Okta Showcase virtual event will be held on October 7, and you will receive more information on that in a few weeks. And so that's it for today. If you have any follow-up questions, you can e-mail us at investor@okta.com. Thanks.

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

Thanks, everyone.

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

Thank you.

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

Thank you.