Hi, everybody. Welcome to Okta's First Quarter Fiscal Year 2024 Earnings Webcast. I'm Dave Gennarelli, Senior Vice President of Investor Relations at Okta. With me in today's meeting, we have Todd McKinnon, our Chief Executive Officer and Co-Founder; and Brett Tighe, our Chief Financial Officer.

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 our financial results is included in our filings with the SEC from time to time, including the section titled Risk Factors in our previously filed Form 10-K.

In addition, during today's meeting, we will discuss non-GAAP financial measures. Though we may not state it explicitly during the meeting, all references to profitability are non-GAAP. These non-GAAP financial measures are in addition to and not a substitute for or superior to measures of financial performance prepared in accordance with GAAP. A reconciliation 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 growth changes as we discuss our financial performance. And unless otherwise noted, each such reference represents a year-over-year comparison.

And now I'd like to turn the meeting over to Todd McKinnon. Todd?
Todd McKinnon, Okta, Inc. - Co-Founder, Chairman & CEO

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Okta continues to build on its position as the leading independent identity partner. Our 2 clouds, 1 Okta strategy has really taken root with our go-to-market team, and our customers and partners love it, too. The actions we’ve taken over the past few quarters to increase efficiency and improve profitability enabled us to deliver strong non-GAAP operating profit and record cash flow. We achieved these results despite increased pressure in the macroeconomic environment, which we anticipated when we introduced the FY ’24 financial targets last quarter. We continue to take a conservative approach to our business outlook.

We’re also pleased to have turned the corner on the challenges we faced last year. Attrition in our go-to-market team has significantly decreased over the past 3 quarters to its lowest level in 2 years. The number of fully ramped salespeople is close to a more normalized level as average tenure increases, and we’re seeing positive trends in the number of sales reps closing Customer Identity Cloud deals. I’ll now cover some of the highlights and achievements in the quarter that we believe position Okta for long-term success.

Turning to our Q1 results. We added 450 new customers in the quarter, bringing our total customer base to over 18,000, representing growth of 14%. Like last quarter, new customer growth is an area that we believe has been impacted by the macro environment. We continue to see growth with large customers for both Workforce and Customer Identity, and we are proud to work with some of the most important organizations in the world, such as OpenAI, the U.S. Air Force Recruiting Service and AIA.

In Q1, we added 150 customers with $100,000-plus ACV. Our total base of $100,000-plus ACV customers now stands at over 4,080 and grew 23%. We’re also seeing continued strength in customers with over $1 million of ACV. We now have over 300 customers with $1 million-plus ACV, which continues to be the fastest-growing customer cohort with growth of over 40%. Here are just a few notable examples of customer wins and upsells in Q1, which come from a wide range of industries.

A business line of a Fortune 500 semiconductor company was an exciting new business win in Q1. The company’s legacy technology was complex, not adequately secure and couldn’t meet the needs of the business line. It selected Okta Workforce Identity Cloud to modernize its technology stack to meet industry compliance standards and for Okta’s ability to address multiple identity use cases. The business line also selected Okta Identity Governance to manage partner access to critical collaboration applications. We continue to see great cross-selling between Workforce Identity Cloud and Customer Identity Cloud.

Two great examples in Q1 were with Indeed and NerdWallet. Indeed, the world’s most visited job site started as a self-service customer and has since leveraged Okta Customer Identity Cloud to power authentication for its corporate customers. This quarter, the company expanded with Okta Workforce Identity Cloud, including Okta Identity Governance, to bolster its security posture and improve the user experience for its approximately 13,000 employees.

NerdWallet, a platform that provides financial guidance to consumers in small and midsized businesses, was another great example of cross-selling between our 2 clouds and a great illustration of how our customers layer on more and more Okta capabilities over time. NerdWallet has been leveraging Okta Workforce Identity Cloud since 2017 to secure access for its employees. Last year, the company added Okta Identity Governance to streamline its compliance processes. In Q1, NerdWallet further expanded with Okta as it replaced its homegrown customer identity solution with our Customer Identity Cloud.

Okta Identity Governance, or OIG, continues to show strong traction. The initial customer demand is validating the desire for a modern approach to governance, one that is cloud-based and integrates seamlessly with access management. In just the past 6 months, hundreds of organizations have purchased OIG, including Q1 wins with Indeed, Amplitude and Australian Football League. We’re really excited about the future of OIG, especially since of the customers that have purchased OIG so far, their OIG spend is typically around 1/3 or more of their total Workforce Identity Cloud spend. It’s great to see OIG off to a fantastic start.

Never stop innovating is a core Okta value, and we continue to make important advancements on that front. We made a number of significant product advancements for our Workforce Identity Cloud in Q1. Advanced phishing resistance is now generally available with Okta FastPass. FastPass gives end users a seamless user experience without passwords. It now protects users against phishing with
advanced phishing resistance for the enterprise, covering every user on any device and major operating system.

Okta Identity Engine began shipping with every new Workforce customer in early 2022. We have made great progress in converting existing customers over to OIE, and now over 40% of our Workforce customers are on OIE. Building on this, we recently rolled out self-service OIE upgrades so customers can automate their upgrade. This self-service option will help accelerate the pace of upgrades, paving the way for even more customers to reap the benefits and power of OIE. More customers on OIE means greater opportunity to upsell our higher-value services and also higher retention rates based on customers converting to date.

We're now in beta testing with Okta Privileged Access. We're extending the same great secure access management as well as identity governance capabilities to privileged resources. Businesses will be able to easily integrate modern cloud infrastructures such as AWS, EC2 or Kubernetes into Okta for centralized policies and controls across the resources their workers need. Organizations are recognizing the value and the convergence of IGA, PAM and access management. And Okta is in a unique position to address our customers' identity needs with a unified identity solution. We continue to expect general availability of Okta Privileged Access by the end of this year.

We're also innovating on Okta's Customer Identity Cloud, which processes billions of logins per month from around the world and provides a unique vantage point to both network traffic and application-level security event data. All of this data enables us to identify patterns and detect anomalies as potential security attacks. We're harnessing that data for Security Center, which is now generally available for Okta Customer Identity Cloud. Security Center is a dashboard delivering real-time insights into potential attacks, allowing for security teams to respond quickly.

In a heterogeneous technology world and an ever-expanding number of devices and applications, best-of-breed technology is the future. To help foster best of breed, Okta continues to expand our technology partnerships so that our customers can deploy the most innovative solutions while enhancing security, all while retaining freedom of choice. Here are just a couple of our latest technology partnership developments.

We've had technology integrations and partnerships with Google for over a decade and have a deep base of shared customers. In the first phase of a new go-to-market alliance announced last month, Google's Workspace's global and public sector sellers will now co-sell Okta's Workforce Identity Cloud alongside Google Workspace. This expanded partnership will enable both Okta and Google to reach new customers through a best-of-breed approach to security and productivity.

In partnership with Zoom, last month, we announced Okta authentication for end-to-end encrypted meetings for all paid joint customers. This new feature leverages Okta to authenticate a meeting attendee's identity to determine if a meeting guest is who they say they are.

Critical to Okta's success over the years has been our indirect channel partners. Historically, Okta turned to partners primarily for reach. And as Okta has grown, we've recognized the need to engage with partners more strategically. Last month, we unveiled our new partner program called Elevate. The program will recognize and reward partners for the full spectrum of value they can deliver to our customers at Okta. From finding, developing and influencing to delivering, managing and transacting, the more of these motions a partner offers, the more value they provide to Okta and our mutual customers.

Streamlining operations and accelerating business technology are critical to establishing Okta as a primary cloud. To help drive these initiatives, I've asked Eugenio Pace, co-Founder of Auth0, to take on the newly created role of President of Business Operations. Eugenio will turn his attention to the overall growth and operational excellence of Okta, including further accelerating our go-to-market effectiveness and increasing automation across the company. Eugenio has a uniquely deep knowledge of the identity market and is an incredible partner.

I've always been proud of our bench talent, so with Eugenio's new focus, Shiven Ramji, who has been a senior leader at Auth0 and Okta for nearly 4 years, will lead Customer Identity Cloud.

To wrap things up, we delivered significantly improved profitability and record cash flow in the face of increasing macro-related pressure.
At the same time, we continue to deliver value to our customers and underscore our leadership position through product innovation. Identity is a key building block for zero trust security, digital transformation and cloud adoption projects, trends that will continue in any macroeconomic environment as organizations look for ways to become more efficient while strengthening their security posture.

Over the next decade, identity will become increasingly important, and we firmly believe that the winner will be independent-neutral and will deliver a unified platform covering both customer identity and workforce identity across access management, governance and privileged access. Okta is the best positioned company to deliver this to the market and expand on our leadership position, all while delivering profitable growth over the long term.

Now here’s Brett to walk you through more of the Q1 financial results and our outlook.

Brett Tighe, Okta, Inc. - CFO

Thanks, Todd, and thank you, everyone, for joining us today. We continue to make meaningful progress on the actions we’ve taken to drive efficiency in our cost structure. As Todd noted, we’re achieving these results while investing in our platform and business to fuel our future growth. As we navigate the increasing pressures of the macro environment, we remain confident that we have set the path of profitable growth for years to come. I'll review our first quarter results and our outlook for Q2 and FY '24, but first, I'll start with some commentary on the macro environment.

We're seeing increased macro headwinds on our business, most notably with new business across SMB and enterprise. These impacts were felt in varying degrees on a global basis. Similar to Q4, customers are requesting shorter contract term lengths, and our overall business was weighted more towards upsells versus new business. We're also seeing smaller average deal sizes as a result. And finally, we continue to experience minor FX headwinds on our top line metrics, which are incorporated into our reported numbers and outlook.

Turning to our Q1 results. Total revenue growth for the first quarter was 25%, driven by a 26% increase in subscription revenue. Subscription revenue represented 97% of our total revenue. International revenue grew 23% and represented 21% of our total revenue. RPO or subscription backlog grew 9%. Impacting total RPO growth is the general shortening of term lengths of recently signed contracts. Our overall average term length is just over 2.5 years. Current RPO, which represents subscription backlog we expect to recognize as revenue over the next 12 months, grew 20% to $1.70 billion.

Turning to retention. Consistent with prior quarters, gross retention rates remained very healthy in the mid-90% range. Our dollar-based net retention rate for the trailing 12-month period remains strong at 117%. The sequential downtick in the net retention rate stemmed from a decrease in the upsell rate with both enterprise and SMB customers. Given the current macro environment, customers are not expanding seats at the rate they have in recent years, and we believe this trend will persist in this environment. On a positive note, we are seeing strong growth in cross-selling of products. As always, the net retention rate may fluctuate from quarter to quarter as the mix of new business renewals and upsells fluctuates.

Before turning to expense items and profitability, I'll point out that I'll be discussing non-GAAP results going forward. Looking at operating expenses. Total operating expenses for the quarter were lower than expected. The better-than-expected profitability is primarily due to the combination of revenue overperformance and better-than-expected outcomes from spend efficiency measures. Total headcount at the end of Q1 was approximately 5,700. The sequential decrease primarily reflects the restructuring action taken at the beginning of Q1.

Q1 free cash flow was a record $124 million, yielding a free cash flow margin of 24%. This includes the cash outlay of approximately $14 million related to the organizational restructuring. During the first quarter, we opportunistically repurchased $366 million of our 2025 convertible debt notes, resulting in a $31 million GAAP-only gain. We will continue to regularly evaluate our capital structure and capital allocation priorities. Our balance sheet remains strong, anchored by $2.37 billion in cash, cash equivalents and short-term investments.

Before getting into our outlook, I wanted to provide an update on equity dilution. At our Investor Day last November, I indicated that our historic norms for net dilution was in the 2% to 3% range and that we expected that range to be elevated in the near term primarily related to the change in our stock price. I'm pleased to report that due to changes that we implemented, including changes in our
granting practices and slowed hiring, net dilution for FY ‘23 finished better than expected at less than 3.5%. And we now believe that dilution for FY ‘24 will be back within our historical range. Managing dilution will continue to be a focus area, and we remain committed to further reduction over the long term.

Now let's turn to our business outlook for Q2 and FY ‘24. Our projections continue to factor in the increased pressure from the macroeconomic environment. As a reminder, we've taken several actions to reduce our cost structure and increase our efficiency as an organization, which will benefit margins this year and beyond.

With that as a backdrop, for the second quarter of FY ‘24, we expect total revenue of $533 million to $535 million, representing growth of 18%; current RPO of $1.71 billion to $1.72 billion, representing growth of 14% to 15%; non-GAAP operating income of $36 million to $38 million; and non-GAAP diluted net income per share of $0.21 to $0.22, assuming diluted weighted average shares outstanding of approximately 180 million.

For FY ‘24, we are raising our revenue outlook by $15 million at the high end of the range. We now expect revenue of $2.175 billion to $2.185 billion, representing growth of 17% to 18%. We are raising our outlook for non-GAAP operating income by $25 million to $161 million to $170 million, which yields a non-GAAP operating margin of approximately 7% to 8%. Non-GAAP net income per share is raised to $0.88 to $0.93, assuming diluted weighted average shares outstanding of approximately 180 million. And we are raising our free cash flow margin outlook for FY ‘24 to approximately 12% from approximately 10% previously.

Lastly, I want to provide a couple of comments to help with modeling Okta. Similar to years past, Q2 is expected to be the seasonal low for cash flow, and we are applying a static 26% non-GAAP effective tax rate for the fiscal year.

To wrap things up, we've taken action to drive efficiencies in our cost structure while investing to fuel our future growth. And we're confident that we are positioning the company for many years of profitable growth.

With that, I'll turn it back over to Dave for Q&A. Dave?
metrics we’re looking at, whether it’s sales force attrition or the amount of sales reps doing a CIC deal, which is 2 things we’ve been watching a lot on the go-to-market side over the last few quarters, are getting better and better. So that’s very positive.

Another interesting thing is that the more -- the large deals over $1 million and customers crossing that $1 million ACV threshold is up over 40%, so that’s super positive. So it’s -- I think it’s a lot of things to be positive about, solid execution, improving execution. And -- but the macro backdrop is just there’s a lot of uncertainty around it. So that is kind of a high level how we’re looking at the business and color some of our outlook.

Brett Tighe Okta, Inc. - CFO
I can add a little bit there. I mean I think from a current RPO guide perspective, obviously, we’ve been thoughtful about the macro, I mean, we talked about it over the last few minutes and how it’s really been affecting us a little bit more every quarter. So we’re being prudent about that side.

And I think the other thing I want to make sure everybody remembers is current RPO does have some residual effect from those FY ’23 execution challenges. It’s not the major part of it, but that does also weigh on the growth as we go through this year.

Dave Gennarelli Okta, Inc. - VP of IR
Let’s go to Roger Boyd at UBS.

Roger Foley Boyd UBS Investment Bank, Research Division - Associate Analyst
Maybe just to push a little bit further on macro. I think it sounds like the biggest impact is really just around deal sizes. But wondering if you could talk about what you’re seeing through the first month of May -- or the first month of 2Q that’s really changed. If you think about sales cycles, pipeline, et cetera, how does that kind of factor into the guidance you’ve laid out?

Todd McKinnon Okta, Inc. - Co-Founder, Chairman & CEO
Yes, pipeline is solid. It’s interesting that the -- if you look at the -- like the analytics we look at over the whole of the business, that’s where you get that average deal size ticking down. When you just have customers -- we just have conversations with customers and the kind of the qualitative aspects of how important identity is and being interested in this approach we have, which is, “Hey, you can get Customer Identity and Workforce Identity and Privileged and Governance from one customer,” very positive conversations.

Also more on the qualitative side, we saw a lot of deals -- or maybe more than normal. We always have some deals that slip out of an end of the quarter, but we had more than normal slip out this quarter. And I guess that’s not great. But on the positive news, we’ve had many of those close in the first quarter of -- or in the first few weeks of Q2 here. And I think what that tells me is that it’s more confidence that it’s really just -- it’s not a question about the value of identity or the long-term strategic nature of what we’re selling. It’s more of what every company is doing.

Okta, we’re doing this ourselves internally. We’re really asking for scrutiny on every purchase. We’re trying to be more efficient. We’re making sure -- customers are making sure they’re getting ROI. They have a plan for ROI. There’s maybe another level of budgetary approval that we didn’t see before. And it does slow some things down, but the projects are still moving. And when I talk to CIOs of some of the biggest customers in the world, they say, “Hey, identity is going to help me be more secure. It’s going to help me do more -- have a more efficient workforce. It’s going to help me transform digitally, and it’s something people are doubling down on and investing in.” So I think it’s -- you’re seeing solid execution, a lot of macro uncertainty, but long term, identity is going to be an important thing, and we’re going to be there to serve the market.

Dave Gennarelli Okta, Inc. - VP of IR
Great. Next question goes to Josh Tilton at Wolfe Research.
Joshua Alexander Tilton  
**Wolfe Research, LLC - Research Analyst**

Just a quick one for me, and I don't -- sorry to come back to the macro here, but I just wanted to clarify. Brett, in the same sentence, you kind of said increased macro headwinds, but then you also reverted to similar to Q4. So I'm just trying to understand, did the macro actually get worse from last quarter? Or did it stay the same?

**Brett Tighe, Okta, Inc. - CFO**

Yes. Yes, it definitely got worse. So what I meant by that is there's some similar trends to Q4 in terms of new business versus upsell mix being much more weighted toward upsells. That's been pretty consistent in terms of us seeing that, right? The contract duration continues to be a little bit lower than what we've historically seen. But some new trends that are coming around are what you heard me talk about around less seat expansions. And what I mean by seat expansions, I mean both seat expansion on the workforce side of the house and also on the monthly active users side of the house in terms of customer identity. So we're seeing it broad-based across both products.

The other area that we're kind of seeing it more broad-based is around from a geo perspective or a segment perspective, there's no one area where you're like, wow, it's really affecting it more there. It seems from what we can see in the data and everything that we're looking at, it really does feel much more broad-based at this point than it was maybe in the past or -- so now where we said in the previous couple of quarters ago we said it's a little bit more small and medium-sized business, we're seeing it both enterprise and small and medium-sized business. So it definitely got worse over the quarter in terms of Q4 -- Q1, sorry.

Joshua Alexander Tilton  
**Wolfe Research, LLC - Research Analyst**

And just to finish my question was, if I look at the guidance for the full year that you guys are raising for revenue, does that assume that what you see today gets worse, kind of stays the same? And just maybe how should we think about the cRPO numbers for next quarter or maybe the year-over-year comps with Auth0 in the mix?

**Brett Tighe, Okta, Inc. - CFO**

Yes, absolutely. It does, in fact, assume that the macro does get worse, both on the current RPO side and on the revenue side. So obviously, when we think about the guidance, both of them have got that incorporated. So in terms of the compares, I mean, what you heard me say a second ago, there is some residual impact from the execution challenges we had in FY '23 in the current RPO guidance. But obviously, we're being thoughtful with how we're thinking about the balance of the year given what we've seen in the macro and how it's developed over the last few quarters.

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

Yes. One thing -- quick thing there is Auth0 was in the comps last year, so that should be a like-for-like there.

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

Next up, Adam Tindle at Ray J.

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

Todd, I wonder if you could maybe opine on kind of a story that's going on with investors. We're seeing the quantitative metrics here. The NRR is in decline. The average deal size that you talked about is ticking down. But you've got more products to sell in each deal and at least to this qualitative story of perhaps we're in more of a commoditization cycle for core identity. Okta has never been the cheapest. I think you've been proud of that. Stiff competition, there's kind of this platform consolidation narrative across security broadly.

So I just wonder if you could maybe talk about that being a premium product with the environment arguably changing. I wonder if you reevaluate that premium product strategy. And if you could maybe comment on the pricing environment broadly and how to compete now versus years ago, that would be helpful.

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

Yes. We're -- we hear that narrative as well. And it's interesting, we don't -- we just don't see it in the data. The win rates remain strong. The -- I mentioned the average deal size ticking down a little bit, but the unit price stays -- the unit price we get has stayed consistent. So
when we look at the data holistically and be rigorous at it and really something we do culturally, which is check our assumptions and make sure we're seeing the world as it is, we just don't see it.

We think that the -- that being the case, we think the right strategy is continue to build the best products for identity use cases broadly and package them and sell them as we sell them and make sure that we keep delivering that leadership position to the market. But listen, we're not -- I mean, we want to win and we're rigorous in our analysis. And we do make sure we look at things with an open mind, that we're executing the best strategy, but we think our strategy and approach, based on all the data and based on what we're seeing, not just quantitatively, too, but just qualitatively with the customer success we're seeing and the traction in our Customer Identity Cloud and the appeal of this, not just the best core access management product but also this -- the IGA product, which is really off to a super strong start, and Privileged Access is coming out and innovations with FastPass, we think we have a winning strategy and we'll keep executing it.

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

And is there still an intent to replace Susan? Or is the management changes you talked about with Eugenio today, that is the new strategy, just to clarify?

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

It's a great -- thanks for asking. Yes, we are -- I am still searching for a go-to-market president. That's a really important search. And in a lot of ways, we have the luxury of making sure we look everywhere and find a truly amazing candidate. And when you look at the people we're talking to, it's not -- there's not a lot of people in the world that have experience taking a company from $2 billion in ARR to $10 billion-plus, which is where we want to go over the next several years.

So we have -- thankfully, the team that's in place is doing a great job, whether that's the interim Chief Revenue Officer, Jon Addison, or our marketing and customer success executive, Eric Kelleher, is doing an amazing job or Eugenio is taking on this role, which is really, really important. It's about how do we make Okta operationally excellent across all dimensions, including very importantly, the strategy and operations of the growth of go-to-market, which is an important component of that, including the automation projects and the technology, IT projects that have to come together to make that happen. It's adjacent to the president, a very important role, but we're going to find a great person for that president role, and I think we're on track to do that.

Dave Gennarelli Okta, Inc. - VP of IR

Let's go to Sterling Auty at Moffett Nathanson.

Billy Fitzsimmons

This is Billy Fitzsimmons on for Sterling Auty. I'll steer away from macro for a sec. How do you both think about Okta's opportunity in the generative AI space and the identity opportunity with the emergence of AI applications?

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

I have a big newsflash for everyone. I think AI is a big deal. And I think it's one of these things that is getting a lot of hype and is probably still underhyped. And I don't think it's like a -- it's come -- it feels like it's come on all at once, but it's really been a culmination of really a lot of important trends in the world, both just like the algorithmic advancements and what they're doing with originally what was TensorFlow and now the large language models in various domains and -- or it's the compute power, which everyone knows about or.

The key thing, too, is just the data. If you think about the breakout application, it's ChatGPT. And ChatGPT really is relevant because of the compute and because of the algorithms but really because it was trained on the Internet or 20-plus years of the Internet to be that training set for that model. So you have to have the data.

So when we look at our own business, one of our huge -- we have AI in our products, and we have for a few years, whether it's ThreatInsight on the workforce side or Security Center on the customer identity side, which look at our billions of authentications and use AI to make sure we defend other customers from like similar types of threats that have been prosecuted against various customers on the platform.
Those products are great, and they'll get better with better algorithms and more data because we have the strategic advantage of having so much data, we can see the patterns. And we'll continue to add more products that take advantage of data and algorithms and compute. So that's -- I'm really excited about the potential.

One of the ideas that we're working on that might be a typical use case of how someone like us could use AI is configuring Okta, setting the policy up for Okta across hundreds of applications on the workforce side or 10 or 20 applications on the customer identity side with various access policies and rules about who can access them and how they access them. It'd be pretty complicated to set up, but we've actually been prototyping using AI to auto-generate that configuration and that policy setup so a customer doesn't have to start from scratch. They can see what 18,000-plus other customers have done and then apply that quickly to their own configuration, decreasing the errors, increasing the speed to value. So that's an idea of, in the products, how it could be maybe a nonobvious use case.

And then the other one we're excited about is if you zoom out and you think this is a huge platform shift, it's the next generation of technology. So that means that there's going to be tons of new applications built with AI. It means that there's going to be tons of new industries created and industries changed. And there's going to be a login for all these things. You're going to need to log on to these experiences. Sometimes it's going to be machines. Sometimes it's going to be users. That's an identity problem, and we can help with that. So in a sense, we're really going to be selling picks and shovels to the gold miners.

In fact, you all know that OpenAI is a customer, and our Customer Identity Cloud is the login for ChatGPT. So that's, I would say, a very exceptional example of a successful application in the extreme. But there's going to be thousands of these types of applications, and they all need identity, and we're here to serve as that supplier to them. So that's another positive trend on our business, I think.

Dave Gennarelli Okta, Inc. - VP of IR

Next up, we have Rudy Kessinger from D.A. Davidson.

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

I guess coming back to the guide, the cRPO guide, certainly the implied second half revenue guide, Brett, implies growth exiting the year in the mid-teens, if not maybe even the low teens. And I guess what can you guys -- on the one hand, you talked about improvement in metrics with the sales force productivity and selling CIC, et cetera. I guess what more do you have to do to maybe put a stop to the deceleration in growth even against a more difficult macro and maybe even potentially reaccelerate growth?

Brett Tighe Okta, Inc. - CFO

Sorry, I had -- my computer just froze. What was the question?

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

I can take it. I'm happy to take it. I think that there's -- first of all, there's -- we're always improving and trying to get better. And I think I made the comment that we're -- we've made a lot of progress on some of the execution issues we had last year and talked about sales attrition being healthy and tenure ramping and productivity of reps in terms of selling CIC being positive. So we're still doing a lot of things to improve. And that's across the whole company, by the way, whether it's operationally improving our efficiency, our effectiveness, building better products, building products faster, better enablement, better go-to-market operations across the board. So we're going to continue to improve.

I think the one in terms of like modeling and going forward, when we see a quarter of some of these trends turn the other way, whether it's mix of new business to upsell, whether it's deal size, as we mentioned, things like that, that's when we're really going to be comfortable that the macro is past us and the business can achieve greater than the guidance we've outlined.
Brett Tighe, Okta, Inc. - CFO

Yes. I would just also add to that, that I would say that we remain committed to this profitable growth concept, right? I mean we've been talking about this for a while now, and you can see it in this quarter with the margins that we had, 24% margins; on the free cash flow side, 21-point improvement. Non-GAAP operating margin was strong as well. That was a huge improvement year-over-year. So it's not just -- obviously, we want to grow as fast as we can, but we want to grow responsibly and profitably as we move forward.

Dave Gennarelli, Okta, Inc. - VP of IR

Let's go to Jonathan Ho at William Blair.

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

Can you maybe help us understand where we are with the sales transition, productivity levels? And maybe what's left to be done at this point? You referenced the sales conditions right here.

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

Jonathan, just to catch people up, so we're really -- so that's 3 quarters into a big change on the clarifying of the positioning of the Workforce Identity Cloud and the Customer Identity Cloud. And that was -- we did that in Q2 of last year, kind of announced it, revealed it to the world in November, so into Q4. This is really -- the end of Q2 here is really the third quarter since it was publicly launched, kind of the fourth quarter since we started working on it internally.

So that was a big milestone behind us. And when we look at evidence of that -- we look for evidence of that, it's resonating. One thing is just the qualitative conversations with customers, conversations with analysts in the market, industry analysts, et cetera, et cetera, and those are all going very well. Quantitatively, what we look at is we look at the numbers I mentioned over and over. It's how many sales reps have done Customer Identity Cloud deals. That's the big new product suite. Doing a deal in there is -- it demonstrates familiarity and capability to do it. It portends the future of being able to do more. So that one has been trending positively and is really in a healthy place. That's a positive thing.

That being said, the tuning of go-to-market and the running of the go-to-market machine on a global basis is something we're always improving, whether it's better top-level, more effective campaigns in terms of driving demand generation, whether it's just operationally how we're prosecuting leads to opportunities, how the sales team has taken those opportunities and all the kind of the blocking and tackling of sales -- the sales funnel and the sales machine, we're continuously improving that.

I think -- but the big changes we made last year with that clarifying of the Workforce Identity Cloud and the Customer Identity Cloud positioning and some of the changes we talked through at that time. So I guess it's a tale of 2 things. It's getting those big rocks behind us. We're also continuing to make sure the go-to-market machine is humming as effectively as it can. But remember, you have a team that's every quarter, the retention is strong or the attrition is low. You have more ramp, and they've done more deals. And they have more at-bats to do more deals, and they're getting more and more productive, which is a positive signal.

Brett Tighe, Okta, Inc. - CFO

Yes. I would add 1 comment to that, Jonathan, which is the CIC trend that Todd talked about in terms of participation in the field is getting better. But the other thing that we saw in the quarter, which was a real strength, was cross-selling across all products, like whether it was like more WIC products to a WIC customer or a WIC customer buying CIC. It's actually one of the fastest-growing areas we had in the company and was definitely accretive to growth in the quarter. So we're very excited about that trend because that really shows you're getting a go-to-market organization that has a breadth of understanding of how to pitch the value and how to deliver value to our customer base.

Dave Gennarelli, Okta, Inc. - VP of IR

Next, we'll go to Ray McDonough at Guggenheim.
Raymond Michael McDonough  Guggenheim Securities, LLC, Research Division - Research Analyst

This is Ray McDonough on for John DiFucci. Maybe for you, Todd. How important is bringing IGA and PAM together to help maybe accelerate or ramp adoption of IGA? And I know it's early with the product, but do you see any delay or hesitancy in customers purchasing attention around IGA, just waiting for the full release of PAM to put those 2 solutions together?

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

Yes, it's a really insightful question. We don't. We actually -- the IGA has -- or OIG, Okta Identity Governance, which is our IGA product, has surpassed every goal we've had for it. Hundreds of customers using it. It surpassed the expectations in terms of -- we originally thought it would be more of a mid-enterprise. It's provided value to some of the largest companies as well.

Another surprising thing is we thought it would be more, hey, greenfield, you don't have any IGA solution. This would be your first one. We actually see it -- we're seeing it be deployed alongside of some of the other solutions in the market, which is -- was a little bit unexpected, a positive thing. And then also even a few times, it's replacing solutions, which surprised me. I didn't think that -- I thought people, once they had something installed, they wouldn't replace particularly the on-premise product with more of the modern, new product that we have. So those are all positive trends.

I actually think -- I don't think that people are waiting at all for the integration between -- to go with IGA, for the integration between IGA and Privileged. I do think that the flip will be true. I think that the fact that Privileged has integration to IGA will accelerate Privileged because that's something that hasn't happened before. Privileged resources were really around -- or privileged access management was really around the admin accounts and dealing with those things in somewhat of a silo. And what we're doing is you can have the same kind of access certification, the same kind of reporting and visibility across all your resources that servers, Kubernetes, and you get the governance capabilities with that.

So I think there'll be a tailwind there where we're not seeing the hesitancy the other way to -- although I think there could be an upside, but we're just not seeing a lot of people waiting for -- to go with IGA because of the Privileged not being there quite yet.

Dave Gennarelli, Inc. - VP of IR

Next, we'll go to Adam Borg at Stifel.

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

Maybe just on the federal vertical. You guys recently talked about Okta for U.S. military. That seems like an interesting announcement. Talked about a growing partnership with (inaudible). So maybe how to think about the federal opportunity more broadly and where you're investing the most there.

Brett Tighe, Inc. - CFO

Yes, federal -- go ahead, Todd.

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

Yes, I was going to say it's really an important vertical for us. And we've had a -- you mentioned the [dot-military], the instance for the DoD, which is the dot-military instance. And then also, we achieved FedRAMP High recently, and these are all huge tailwinds to that important business for us. The government is -- and it's not just federal, by the way. It's the state and local as well. Some of our sizable opportunities over the last couple of quarters and over the next few quarters are actually with states, states doing big transformation projects. And yes, we have a big goal and target on federal this year. It's something we invested a lot in, and we're very excited about the potential for that to achieve and even overachieve its targets.

Brett Tighe, Inc. - CFO

Yes, I would just add to that in the sense that if you remember last time we spoke for FY '23, federal specifically was the fastest-growing segment we had across the company, and that's a direct result of the focus we put on in FY '23. And I think that's created a lot of momentum for us as we're going to move through this year. I mean you saw the U.S. Air Force Recruiting Service sign-on for us as a customer. So we definitely are excited about the opportunity in the long run.
Let's go to Stefan Schwarz at Wells Fargo.

**Stefan Alexander Schwarz**  
Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

I'm on for Andy Nowinski. Just a quick one. You mentioned PAM is in beta. Any early customer feedback from that?

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

Yes. It's pretty early. It was released, I think, into beta like 6 weeks ago. But yes, they're digging in, and they're -- a lot of these customers are -- they were familiar with the road map, and so they kind of -- they've really kind of honed their evaluation to be really on the sweet side of the product, which is dynamic environments that use a lot of containers, use a lot of cloud instances, want to control those types of environments with the same types of access management primitives like passwordless, like anti-phishing, access management capabilities that the core Okta platform provides. So they're really kind of perfect fits for this.

So it's off to a very good start. It's early. We expect that the next wave of customers will be much broader, and it will also be customers that maybe weren't as hand-selected. So we'll get a lot of good signal out of this next wave as well.

**Stefan Alexander Schwarz**  
Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

Got it. And then just real quick, any timing on when you might see the next wave of customers?

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

So I would -- instead of the exact time on that, I would focus on the fact that we're on track for the end-of-the-year GA.

Next up is Joe Gallo from Jefferies.

**Joseph Anthony Gallo**  
Jefferies LLC, Research Division - Equity Associate

Todd, you've mentioned SIEM being a key focus area this year. Just any quantitative or qualitative update on the performance of SIEM versus Workforce. And then maybe just a quick update on the sales force's comfortability selling SIEM.

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

Yes. The one -- it is something importantly we watch, and I mentioned a couple of times that just kind of qualitatively, as I have conversations with customers and I do my -- I talk to a lot of customers, and I'm in a lot of both being the executive sponsor for big accounts for Okta but also working with deals and new customers. It's still a relatively small number given the number of 18,000-plus customers and the number of deals we do in a quarter. So I do like to compare the actually quantitative aggregate data with my qualitative data.

But qualitatively, the interest is pretty similar across both. There's big Customer Identity customers. There's important Workforce customers that want us to -- are going through strategic transformations and want to make sure that we're going to be there to support them for massive rollouts and huge investment in Okta. And then when you look at the -- but when you look at the aggregate number, the one that's really important is just the number of sales reps doing these CIC deals. And that's just more at-bats, more repetition. That's going to lead to, I think, a really balanced business going forward and a go-to-market organization that can sell both products at scale.

The one thing I will say in terms of qualitative as well -- or quantitative as well is that the macro impacts we're talking about, whether we say smaller than average or decrease in the average deal size or it's the tilt toward upsells versus new business, these are across both use cases. These are consistent across Workforce and Customer. We don't -- you might want to -- one of the ideas we had is it would be impacting one more than the other and we don't see that. It's consistent across that, which is also a reason why when you think about market dynamics or pricing or competitive, the 2 businesses have very different competitive sets. And it's interesting that all these trends we track are impacting both the same, which also gives us confidence that it's macro-related.
Brett Tighe, Okta, Inc. - CFO

Yes, I just would add to that in the sense that if you heard my comment a second ago around our cross-selling across the business, whether it's intra-cloud or inter-cloud, was really good. One of the bright spots in that was the cross-selling of CIC into other types of customers. So it's another good positive sign inside what we're seeing in the execution of the organization.

Dave Gennarelli, Okta, Inc. - VP of IR

Next, we'll go to Fred Havemeyer at Macquarie.

Frederick Christian Havemeyer, Macquarie Research - Senior Analyst

I'm sorry to return the conversation back to macro...

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

No worries at all.

Frederick Christian Havemeyer, Macquarie Research - Senior Analyst

I'm hoping to get a better picture or a more intuitive understanding about kind of where the macro headwinds are originating. So wanted to ask if you could elaborate about just is this something that could be coupled, perhaps the layoffs and hiring freezes that are ongoing ubiquitously across a whole range of markets? Or is this something perhaps more related to just general cost controls within organizations? Or is it something completely different?

Brett Tighe, Okta, Inc. - CFO

I would say it's a mix of both of what you just said because when you look at the Workforce Identity Cloud, you heard me talk about seat expansions. Well, the seat expansions are really our customers' employees, right? They don't have as many as they expected, so they're not going to buy more, or maybe they have less than they had when they originally contractually agreed with us. So -- and that's happening, by the way, on the CIC side, the Customer Identity Cloud side as well.

We're seeing the commitments to and expectations around their own websites or their own customer-facing applications being a little less so. So we're seeing that component, but then we're also seeing, if you look at contract durations, seeing how they're a little bit shorter than normal. I think people are just being more thoughtful about the uncertainty out there in the macro. That's all the quantitative we can see.

There's also the qualitative that we hear from the field of budgets being reduced a little bit or, hey, the CFO and procurement being a little slower to close deals because they want to be thoughtful about how they enter into contracts. So we're seeing a variety of those things, of what you just said, Fred. So I think you've got it spot on.

Dave Gennarelli, Okta, Inc. - VP of IR

Let's go to Shrenik Kothari at Baird.

Shrenik Kothari, Robert W. Baird & Co. Incorporated, Research Division - Senior Associate

So on the positive side, I know Brett mentioned that you guys have seen strong growth in cross-sell across products. So I'm assuming it's both Customer Identity as well as IGA beginning to move the needle in terms of ACV. But I mean since you guys mentioned about the future of Identity Governance, you guys are seeing almost 1/3 or more of the total kind of Workforce Identity Cloud spend going to OIG.

So just wondering, and I think you touched upon it in terms of essentially the majority of the business still being greenfield, but the replacements are also in terms of your ability to win and RFPs exceeding your expectations. So can you provide some more color there? Has there been more replacements compared to last quarter in terms of the mix, how that's trending?

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

Yes. I think it's a really good -- it's some really good questions there. I'll separate the kind of aggregate statistics of the healthy cross-sell and upsell numbers. So this is inclusive of you have a Workforce. You add multi-factor. You have single sign-on. You add advanced
So there's -- it's upsell products within Workforce. It's also upsells -- sorry, cross-sells within Workforce. It's also cross-sells where you have Workforce and you buy Customer or you buy Customer -- you have Customer and you buy Workforce. So that's just in the data holistically.

So IGA, it's off to a strong start, but it's only in the hundreds of customers. So it's very optimistic, but I don't -- it's not really moving that needle yet. We think it will over time. But it is off to a very fast start. And I think one thing that -- just to clarify what I said, I think that our assumption was that it would be more greenfield. It's a very -- it's a modern IGA. It's super integrated with access management. It's -- it covers all of the basic use cases and all the integrations that a customer that is more cloud-centric and modern in their technical architecture want to need -- would want or need. And the -- so I thought it would be more greenfield.

The surprising thing is that it's being installed next to legacy deployments. So even though they chose a legacy vendor, for whatever reason, they couldn't expand it fast enough, they didn't get the value or it didn't get as broad as they want it to. They're putting Okta Identity Governance next to it for kind of -- and surrounding it in that.

I don't -- we have seen a couple of replacements, but I think full rip-outs of an IGA solution are going to be relatively rare. I think once people get these things installed, they work and they don't touch them. But we also think there's a big opportunity to -- I mean, the IGA market right now is not that big. We think with a great product like Okta Identity Governance, we can make it much, much larger. And that's why these early trends are super exciting.

Next up, let's go to Scotiabank.

William Joseph Vandrick Scotiabank Global Banking and Markets, Research Division - Associate

This is Joe Vandrick on for Patrick Colville. So going back to the governance product, adding an incremental 33% or so to customer spend for those who adopt it, should we expect a similar uplift for customers who adopt PAM once that's rolled out?

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

Yes, I think that's realistic. We want to see it in the market and see it contribute that because that 1/3 increase is based on looking at customers in the market, hundreds of customers. So when we look at PAM right now, we see kind of the pricing of it, and we model it out. We think it could be that -- contribute that much. But we want to see it actually before we're as confident as what we're seeing in Okta Identity Governance.

Okay. Let's go to Madeline Brooks at BofA.

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

Just one clarifying question and then one quick follow-up. I guess on the cRPO guide, if I'm thinking about the impact from Auth0 integration last year, can you just give us some parameters on how large that is? I mean a 1% impact is very different from 5% impact.

Brett Tighe Okta, Inc. - CFO

You mean like the impact associated from the Customer Identity Cloud selling last year?

Madeline Nicole Brooks BofA Securities, Research Division - Research Analyst

Right. And some of the selling issues and how that's reflected in cRPO growth.

Brett Tighe Okta, Inc. - CFO

Got it. Look, I couldn't give you the exact percentage. I mean obviously, it creates a headwind for us, both on revenue and cRPO because we didn't execute as well as we want. But obviously, as you've heard today, we feel like we've turned the corner on a lot of those execution issues. And we've actually had quite a nice quarter, both top line and bottom line. So yes, I can't give you an exact number.
Okay. Got it. No worries. And then on the Customer side, too, I mean, I know you said that there's no -- you guys aren't seeing an impact -- a difference from macro impact on that. But given that Customer is a little bit more of a transformational project, if we think forward as to how the year is going to go, are you forecasting any slowdown on the Customer side because of that? And if you look forward to it, Brett, you mentioned that you are having a little bit more conservative going forward. So where is that conservatism coming from? Is it still assuming you're going to see similar impacts on both product lines?

Brett Tighe, Okta, Inc. - CFO

The guidance right now assumes it's -- it gets worse in both product lines because we are seeing the impact in both product lines. So that's really how we're thinking about it going forward.

Dave Gennarelli, Okta, Inc. - VP of IR

Let's go to Keith Bachman at BMO.

Keith Frances Bachman, BMO Capital Markets Equity Research - MD & Senior Software & IT Services Analyst

I wanted to ask Brett for a second. If you could talk a little bit about the net retention rate, the latest 12 months number. And so presumably, this quarter was a pretty big step down on a quarter-over-quarter basis. But how should investors be thinking about the net retention rate as we look out over the next couple of quarters?

And related to that, you've talked about IGA and PAM and presumably some other products being interesting to customers. And so if the macro just stays the same or maybe gets a little bit worse, if we think over the next 2 to 4 quarters, how might these products really be able to help the mix or the upsell, if you will? Because what I think investors are really struggling with is the crPO guide is candidly deemed to be disappointing. But the larger question is, is that 14% to 15%, is that the bottom? Or does it get worse from here?

Brett Tighe, Okta, Inc. - CFO

Yes. Okay. So in terms of net retention rate, the decline quarter-over-quarter from 120% to 117%, like we spoke about previously, we did expect the number to decline, and they were for 2 reasons. If you remember last time, I talked about macro worsening, and we basically spent most of this call talking about macro worsening. So it definitely kind of played out like we thought it was. You can see it due to seat expansion stats that we talked about today.

The other thing we talked about is why we thought it was going to drop throughout FY '24 was around FY '23 customer adds. We didn't add as much new business in new customers in FY '23, thus makes it less customers to upsell into in FY '24. Both of those obviously came to fruition. 117% is where we landed. But the thing that I want to make sure everybody is very clear on is that the gross retention rate has remained stable in that mid-90% range. And we do expect that to continue throughout FY '24.

In terms of those 2 other factors, which basically influence your upsell rate, the upsell rate is basically the difference between net retention rate and gross retention rate, we do believe that there's a continued headwind through the year, and we do believe we tick down from here in terms of net retention rate through the balance of FY '24.

Now to your question on OIG and PAM, yes, obviously, we're actively working that to have those offset those seat expansions, but I mean, OIG, off to a great start, as you've heard Todd talk about. But the numbers are still small. We all need hundreds of customers versus 18,000-plus customers, right? And then PAM is only going GA at the very end of the year. So we'll see the effect from PAM more likely in '25 and '26. So that's how I would think about net retention going forward.

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

Yes. The other thing, too, is that when you think about the products to potentially upsell, the Customer Identity or Workforce Identity, selling Workforce Identity to someone that has Customer or a Customer that has some in the Workforce is a way bigger impact than PAM and IGA at this point. That could change next year or '26, but for this year, the big upsell opportunities are selling the other cloud.
Okay. And just to finish off though, is there anything you want to say about the cRPO growth? I mean can you say this was the bottom? Or is it just too hard to call at this point?

Brett Tighe, Okta, Inc. - CFO
We'll update you as we go. Obviously, it's a fluid macro environment, and so we don't want to get too far out in front of ourselves at this point.

Dave Gennarelli, Okta, Inc. - VP of IR
I know we're a little bit past the top of the hour, but we'll go into overtime a little bit more here, try to get to a few more questions. So next, let's go to Gabriela Borges at Goldman.

Gabriela Borges, Goldman Sachs Group, Inc., Research Division - Analyst
I want to stay on the topic of net retention. Brett, could you remind us, what percentage or how do you think about net retention split between upsell? If you look back over the past couple of years, how much has seat count growth or classic upsell contributed to net retention versus how much is cross-sell today?

Brett Tighe, Okta, Inc. - CFO
So that was what I was saying earlier, which is seat expansion definitely was a headwind to growth and also a headwind to net retention in Q1. And we do expect that to continue to be a headwind as we move forward given our lens on macro and what we're seeing. So cross-sell had a nice quarter, like you've heard us say, but it's really that seat expansion is really what we're seeing is -- and when I say seats, to be very clear, it's both seats on the Workforce side and MAUs on the Customer side. So we're seeing it in both sides of the business. And we do believe that continues to be a headwind throughout the balance of FY '24.

Gabriela Borges, Goldman Sachs Group, Inc., Research Division - Analyst
Is there a way to think about what the typical magnitude of contribution would be in a normal year from classic upsell (inaudible) MAUs?

Brett Tighe, Okta, Inc. - CFO
It varies from year to year, but it's been a mix between the 2. It hasn't been like 90-10, one or the other, right? It's been a mix between the 2.

Dave Gennarelli, Okta, Inc. - VP of IR
Let's go to Eric Heath at KeyBanc.

Eric Michael Heath, KeyBanc Capital Markets Inc., Research Division - Research Analyst
Just a question for you. I mean Microsoft last week at their Build conference announced kind of a new program or a new product around SIEM. So just curious to get your initial thoughts here on kind of that product and maybe how that may alter the competitive landscape, if you will.

Todd McKinnon, Okta, Inc. - Co-Founder, Chairman & CEO
Yes, I'm not -- I didn't pay attention to it. I'm not familiar with that announcement, so I can't comment on that specifically. But I do know that it's just -- they've tried customer identity stuff in the past. I think it's just pretty different than the -- it's pretty different than -- their workforce identity picture is. It's kind of like identity as part of your e-mail. And the whole focus of their identity program really is to be identity for e-mail and then by extension, be identity for security. And it's just a pretty different motion than Customer Identity and having a great developer experience and having the integrations that you have to have on the customer identity side.

So I think -- I don't know the specifics, but it's just a pretty different world, and I think that's why we're pretty unique to have such scaled businesses in both. By far, the biggest customer identity vendor, it's a pretty -- it's important to bring both to customers, but one of the reasons why it's so valuable from a company perspective from -- to be that vendor is because you have to really build 2 muscles to do it successfully, which is what we've done.
Dave Gennarelli Okta, Inc. - VP of IR
Let's go to Brian Wilcox at Cleveland.

Brian Wilcox
Could you talk about the contribution you're seeing from cloud marketplace transactions? And how do you think about that channel longer term given we're hearing many customers are using it as a way to work down cloud -- excess cloud commits?

Todd McKinnon Okta, Inc. - Co-Founder, Chairman & CEO
Yes. We're definitely seeing that as well. The AWS Marketplace has been pretty successful for us. It's still relatively small in terms of our partner channels, but it's growing quite rapidly. And the same thing, it sounds like you've heard, we hear as well. Customers like they can spend their enterprise credits that they've purchased. They can spend it on Okta through the marketplace. That's pretty compelling to them.

But I think there's a bigger reason why Amazon is a really good partner for us and customers use the marketplace. And that's because if a customer has Okta, that means that they're more likely to use a choice of cloud providers versus being locked into one. And that's -- I think that's why it resonates to not just Amazon but a lot of the partners that we have, whether it's -- we talked about the Google announcement, the Zoom announcement. One of our big value props is our independence and our neutrality.

And some of that is just the way we build features and how they're not beholden to kind of shuttling certain technology to customers. But it's also the ecosystems and the partner's ability to work with us, whether it's Google Workspace or Amazon or Zoom we talked about or the hundreds and hundreds of other big-scale technology vendors that have an interest in there having to be choice in an ecosystem.

We're ready and willing and capable partner for them.

Dave Gennarelli Okta, Inc. - VP of IR
Let's go to Matt Hedberg at RBC.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst
So there's been a lot of talk about better cross-sell and upsell within your base versus new logos. I'm curious, Todd, when you look at the new logo side, how do you think we could start to unlock the broader legacy identity access management replacement? Like there's hundreds, if not billions of dollars out there on the legacy side seemingly waiting to be sort of like unlocked.

Todd McKinnon Okta, Inc. - Co-Founder, Chairman & CEO
Yes. It's -- so I think I've said this before for folks that have listened to the calls and I've had the pleasure to meet and talk to. I think the biggest opportunity for Okta is really the mass -- which is coming, the mass movement of people to do security and identity from the cloud, whether that's on the workforce side, where the default in especially large organizations, the default is just to kind of do it in their own data center and do it on-premise, do it in their own office and their own -- they think about the old world of local area networks and VPNs.

And on the customer identity side, it's just kind of build it yourself. So the -- I guess I think I've said this before for folks that have listened to the calls and I've had the pleasure to meet and talk to. I think the biggest opportunity for Okta is really the mass -- which is coming, the mass movement of people to do security and identity from the cloud, whether that's on the workforce side, where the default in especially large organizations, the default is just to kind of do it in their own data center and do it on-premise, do it in their own office and their own -- they think about the old world of local area networks and VPNs.

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products, and you keep building a company that can help customers when they're ready. And then the other part of it is just it's kind of inevitable. I mean it's going to change. Technology is going to move forward. Companies are going to make these investments, and we're going to be there to provide the identity solution when they do.

Dave Gennarelli Okta, Inc. - VP of IR

Maybe we can get these last 2 quickly. We'll go to Peter Weed at Bernstein.

Peter Weed Sanford C. Bernstein & Co., LLC., Research Division - Analyst

One of the things that I'm kind of taking out of some of your guidance and numbers here is -- and look, I get that some deals slipped into the next quarter that you had anticipated to get in this quarter. But it looks like you have yourself kind of reaccelerating a bit into the next quarter and actually even more in the second half of this year. And it's modest, obviously, but hopefully, those are conservative and might imply that you've got some optimism for reacceleration. What's giving you that sense of optimism and continuing to kind of raise your full year guide and perhaps quarter-over-quarter acceleration in the second half?

Brett Tighe Okta, Inc. - CFO

Yes. I mean I think for us, when we're thinking about the guidance, I mean, I don't think we're getting overly aggressive here. I think we're obviously being prudent with the environment. And we've seen some good execution in the quarter. And so we're obviously balancing that off with the effect from the macro. So that's really how we're thinking about the guidance.

Dave Gennarelli Okta, Inc. - VP of IR

Yes. Let's take our last question from Param Singh.

Paramveer Singh Oppenheimer & Co. Inc., Research Division - Research Analyst

This is Param Singh on for Ittai Kidron. So firstly, I wanted to get a sense of, between the Customer Identity Cloud and the Workforce Cloud, how much of a cross-sell opportunity still exists. I mean just trying to get a sense of, out of the 18,000 customers, how many use bulk. And then I had a quick follow-up.

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

The -- I think the opportunity is huge. I think just the Customer Identity and Workforce Identity, if our existing 18,000 customers had both fully, all the products in both clouds, would power success for many, many quarters.

Brett Tighe Okta, Inc. - CFO

I would say -- I would actually say years.

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

Yes, many, many quarters, like all for us.

Paramveer Singh Oppenheimer & Co. Inc., Research Division - Research Analyst

Is there any way to quantify that? You have like 15%, 20%, 50%?

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

It's interesting. So we've done some work on this. The tricky part about it is trying to uniformly, across 18,000 customers, quantify the Customer Identity side of it because you have to -- it's not like Workforce where you can say how many employees, making assumptions about partners and contractors and then look at the spend. With Customer, you have to kind of make a leap about when's the next ChatGPT or how much digital transformation are these industries going to go through broadly. So it's a little bit harder to calculate, but we know enough to know that it's -- if we execute, we have a big opportunity.

Paramveer Singh Oppenheimer & Co. Inc., Research Division - Research Analyst

And then the real quick follow-up was, do you think you're rightsized with the restructuring you had in the first quarter? Or do you think there's some more opportunity here to trim fat here and there?
Todd McKinnon Okta, Inc. - Co-Founder, Chairman & CEO
We think the plan is -- in terms of the guidance and the profitability and the profitable growth, we think it's a good plan. We're always looking...

Paramveer Singh Oppenheimer & Co. Inc., Research Division - Research Analyst
You think you're [rightsized] at this time?

Todd McKinnon Okta, Inc. - Co-Founder, Chairman & CEO
We think it's a good plan, yes. Yes.

Dave Gennarelli Okta, Inc. - VP of IR
Well, great. We appreciate everybody attending today. Before you go, I wanted to let you know that we'll be attending the Mizuho Cyber Summit virtual event on June 12. We'll also be participating in several bus tours this June, and we hope to see you at one of those events. So that's it for today's meeting. And if you have any follow-up questions, you can e-mail us at investor@okta.com.

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