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Earnings Call

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Call Participants

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Presentation

Dave Gennarelli
Senior Vice President of Investor Relations

Hi, everyone. Welcome to Okta's Second Quarter Fiscal 2027 Earnings Webcast. I'm Dave Gennarelli, Senior Vice President of Investor Relations at Okta. Presenting in today's meeting will be Todd McKinnon, our Chief Executive Officer and Co-Founder; and Brett Tighe, our Chief Financial Officer. Eric Kelleher, our President and Chief Operating Officer, will join the Q&A portion of the meeting. Around the same time that the earnings press release hit the wire, we posted supplemental commentary to the IR website.

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 are 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 numerical 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
Co-Founder, Chairman & CEO

Thanks, Dave, and thank you, everyone, for joining us this afternoon. Our Q2 financial performance was driven by broad-based strength across our core workforce identity and customer identity platforms. Particular areas of strength were once again with large enterprises, partner engagement and contribution from our newer products. This afternoon, I'll walk through the strength of our core business, the momentum of our portfolio of new products and our investments in product innovation and breadth. And finally, with AI security remaining top of mind for our customers, I'll share the advancements we're making with AI product development and early customer wins.

We were pleased to see an acceleration in annual contract value growth for both workforce identity and customer identity, driven by strong execution and sales productivity. Additionally, the emerging use of AI by organizations and threat actors alike has further elevated the role identity plays within a company's security posture. Organizations are accelerating their infrastructure modernization time lines to address this heightened threat environment, and we're seeing conversations that begin with securing AI broaden into identity modernization initiatives.

Our portfolio of new products are an important and fast-growing component of our solution set. In Q2, new products represented approximately 30% of bookings. Okta Identity Governance was once again the leading contributor. On average, the ACV uplift when any of the new products are included in a deal is about 40%. Product innovation is a primary investment area aimed at accelerating top line growth. Those efforts have already resulted in faster product velocity, including advancements in our AI products and in the public sector. We're excited about the launch of Agent gateway, which enforces policy at run time and delivers vendor-neutral protection across platforms and clouds, including Claude Code, Cursor, GitHub Copilot, Salesforce Agentforce and any agent pointed at an MCP endpoint. The public sector has been one of our best-performing verticals over the past few years. We look to build on this momentum with the general availability of Okta for AI Agents-Core.

With this new SKU, Okta became the first independent neutral identity platform to bring AI agent governance to highly regulated environments, including FedRAMP and HIPAA. We're also unlocking more U.S. federal opportunities with the recently earned Impact Level 5, or IL5, the highest level unclassified cloud authorization for the U.S. Department of Defense. Achieving IL5 authorization is a critical milestone as defense organizations aim to meet the DoD's 2027 Zero Trust mandate.

In addition to our organic product innovation, we have a successful track record with our tuck-in acquisition strategy, which helps accelerate our product road map. We just completed the acquisition of Permiso, a cloud-native identity security platform that detects and mitigates threats across human, nonhuman and agentic identities in multi-cloud environments. Permiso will be integrated into a unified security offering with our existing ITP and ISPM solutions. The combination strengthens Okta's AI security offerings with enhanced visibility into autonomous agent behaviors and additional runtime controls to ensure secure agentic activity in real time.

While there's been a lot of talk by other companies about identity security for AI, Okta has generally available products that are already delivering real value for our customers. Okta's proven leadership in identity uniquely positions us to secure the AI era. Identity is the primary control plane for securing AI and customers are extending the trusted foundation they already rely on with Okta's neutral, modern enterprise-grade identity platform to now cover agents.

We continue to build on 3 unique advantages to help our customers navigate this shift: distribution, product breadth and neutrality. While adoption remains in its early stages, momentum is growing, and those advantages are translating into customer demand reflected in the dozens of AI deals we won in Q2.

Our product breadth was a key driver in securing a multimillion-dollar Okta for AI Agents deal with a Fortune 50 healthcare company. AI was spreading across their organization, and they couldn't tell where their agents were, what those agents were connected to and what they could do. Okta will give them a single control plane to discover, secure and govern those agents, helping them meet strict HIPAA compliance requirements. Okta will manage their entire identity fabric, including agent governance, privileged access and identity security, helping to ensure every human, nonhuman and agent identity is managed.

Our distribution advantage comes from the reach and trust we've built as the identity system of record for more than 20,000 customers. We saw it at work with a global business management consulting firm that was racing to put its own AI agents into production. After considering an in-house build, the firm chose Okta for AI agents for its single control plane for human and nonhuman identities, faster deployment and lower cost of ownership. Okta will carry the agent's identities through every handoff, binding the agents to the original employees' delegation with a verifiable record that can satisfy client and regulator requirements.

Our neutrality was critical to an Okta for AI agents deal with one of the world's largest asset managers where AI was rolling out faster than their security team could govern. Thousands of agents from multiple vendors were running in production, creating risks the organization couldn't consistently see or control. Only Okta's independent and neutral platform could cover their heterogeneous environment from employees and devices to AI agents without vendor lock-in. Okta will provide visibility across all agents and enforce least privileged access so every agent gets only what it needs. The common theme across these 3 wins and the other AI deals we've closed is that customers want to move quickly without compromising on security and control. Okta for AI agents lets them do both by helping them discover, govern and protect every agent.

More broadly, the fragmentation of the AI landscape creates significant opportunities for Okta. As enterprises deploy agents across models, clouds, applications and infrastructure, they need a neutral identity layer that can secure it all. That's why we partner with industry leaders, including Anthropic, which this quarter named Okta the first identity provider supporting Enterprise Managed Auth for MCP connectors. Now generally available, Enterprise Managed Auth enables IT teams to centrally authorize and govern how Claude connects to enterprise applications.

We also recently expanded our work with AWS, Cisco, OpenAI, Databricks and Snowflake, alongside more than 25 new Cross-App Access integrations, providing a standardized way to govern how AI agents connect to a growing ecosystem of enterprise applications and resources.

In just a few weeks, we'll talk more about AI security and product innovation at Oktane, our annual customer conference. We'll bring the market's leading minds together to lay out the industry blueprint, open standards and new innovations required for building the Secure Agentic Enterprise. In addition to the keynotes and product demos, we will host a Q&A for analysts and investors. Come join us in Las Vegas or join us online for the AI security event of the year.

To wrap things up, we're pleased with the strength and durability of our core workforce and customer identity businesses, and we're enthusiastic about the early success we're having with our AI products as customers recognize our advantage as the leading neutral modern identity platform. It was a strong start to the first half of FY '27, and we look to build on our momentum as we move through this year and beyond. I want to thank the entire Okta team and our loyal customers and partners who put their trust in us every day. And now here's Brett to cover the financial commentary.

Brett Tighe
Chief Financial Officer

Thanks, Todd, and thank you, everyone, for joining us today. Our strong Q2 financials build on the momentum we've generated over the past several quarters. We continue to focus on operational efficiencies throughout the organization while driving top line growth by investing in product innovation, go-to-market and our partner ecosystem. As a result, we experienced acceleration in many of our top line metrics while also maintaining very healthy profit and free cash flow margins. I'll provide insights into our Q2 performance and then move into our outlook for Q3 and FY '27.

Q2 was a record bookings quarter for a non-Q4, driven by strong pipeline conversion and deal expansions. We continue to see productivity gains within our go-to-market organization, aided by our stable sales force that has low attrition and high AE tenure rates. Strength with large enterprise customers was punctuated by over 20% growth in $1 million-plus ACV customers. We now have over 600 customers with greater than $1 million in ACV. Additional areas of strength included our upsell and cross-sell motion and pipeline build.

The investments we've been making into our partner ecosystem are resulting in positive outcomes for the business. When our partners are involved, our average deal size is bigger and the close rates improve. Channel partners were engaged in all of our top 20 deals in Q2, and our biggest deal of the quarter was partner sourced. At the beginning of this fiscal year, we made the decision to shift more of our professional services business to our GSI partners. This change is reflected in the decrease in Q2 professional services revenue to approximately 1% of total revenue. We believe this change will lead to greater long-term benefits to fuel top line growth by deepening the relationship with these important partners and increasing our business with large enterprises.

Moving on to our balance sheet and capital allocation. We had another strong quarter of cash flow in Q2. While Q2 is typically our seasonal low for cash flow, it was much better than expected based on strong operating profitability and collections. We ended the quarter with a healthy balance sheet consisting of approximately $2.3 billion in cash, cash equivalents and short-term investments. In June, our convertible notes reached maturity, and we settled the remaining principal amount of $350 million in cash. Okta no longer has any convertible debt on the balance sheet.

Over the course of Q2, we repurchased and retired approximately 1.5 million shares for a total cost of $125 million. $555 million remains under the $1 billion repurchase program. We continue to regularly evaluate Okta's capital allocation priorities to ensure we're well positioned to deliver sustainable long-term value to our shareholders.

Now let's turn to our business outlook. We continue to take a prudent approach to forward guidance. For the third quarter of FY '27, we expect total revenue growth of 10%, current RPO growth of 11% to 12%, non-GAAP operating margin of 24% to 25% and free cash flow margin of 21% to 23%. For the full year FY '27, we now expect total revenue growth of 10% to 11%, non-GAAP operating margin of 26% and a free cash flow margin of 28% to 29%. As a reminder, the FY '27 revenue guidance includes about a 1-point impact related to a strategic decision to shift more of our professional services business to our GSI partners. In addition, the FY '27 free cash flow margin guidance includes about a 1 point impact related to lower interest income due to the stock repurchase program and our cash settlement of the remainder of the 2026 notes.

To wrap things up, we're pleased with the first half of FY '27 and are optimistic about the trend we're seeing in the business. We're investing for growth while remaining disciplined with our cost structure. Our strong core business and growing portfolio of new products provides the foundation to extend Okta's leadership in identity security. We're well positioned to deliver profitable growth for years to come.
With that, I'll turn it back to Dave for Q&A. Dave?

Question and Answer

Dave Gennarelli
Senior Vice President of Investor Relations

Thanks, Brett. There's quite a few hands raised already, and I'll take them in order until the top of the hour. And in the interest of time, please limit yourself to one question. With that, we'll go to Eric Heath at KeyBanc.

Eric Michael Heath
KeyBanc Capital Markets Inc., Research Division

Congrats on the strong results, Todd and Brett. Maybe sticking with the theme for Okta for AI agents. Todd, I was curious to hear just how material the Anthropic partnership you're having is contributing to the go-to-market and kind of the product maturity that you're delivering? And secondarily, maybe for you, Todd or Brett, but just the uplift you're seeing on these deals for Okta for AI agents and maybe just some sort of perspective on what the ratio is looking like in terms of the agents to humans thus far.

Todd McKinnon
Co-Founder, Chairman & CEO

Yes. We're really excited about the quarter. It was an amazing quarter on a lot of fronts. Specifically, one of the highlights is that our place in the ecosystem. Our place in the ecosystem is super important and super strategic. And it's not just me saying that, I think it's in all these customer conversations. I'm having many, many customer conversations and flying around, meeting these customers that are trying to solve these security challenges in general, and particularly around AI agents. And they see us as like the natural -- naturally well positioned to secure this agentic future. And so we're going after that on all fronts. Okta for AI agents is the main product front there. But it's also -- in short term, we can solve these problems in a lot of different ways. We can help them roll out agents today. We can give them visibility. I think longer term is something we're working on as well. I think longer term, the entire industry needs to work more -- they need to work better together.

The industry right now in security, everyone is coming at the customer saying they have the only answer. They can secure agents. They're going to be the one to do it. And the reality is it's going to take us all working together. And so Okta has been working on this. You know on these calls, the last 5 or 6 calls, we've talked about standards and ecosystem. And we made a huge step forward in terms of one of the main standards we've been working on, which is the standard we've talked about called Cross-App Access. And so the huge step forward this time is when the biggest AI agent in the world, Claude is supporting Cross-App Access. They released Enterprise Managed Auth, which is the first time an AI agent has been compatible with this protocol. And Okta is the first identity provider to support this protocol. Now it's an open protocol. So we hope every identity technology company supports it, and we hope every other AI agent supports it.

And then also everyone in the resource side of the equation is starting to support it as well. We announced 26 top SaaS vendors are supporting from a resource perspective, this protocol. So this is one example of many things we're going to be doing in the ecosystem to make this whole world fit together better because that's what customers need. We need to stop everyone confusing the customer by saying one company is going to do it all and start defining how we can all work together to bring concrete solutions to these customers.

In terms of like where the products stack up in the quarter, we had, as I mentioned, the quarter was strong across almost every dimension, particularly strong was the 30% of the new bookings were from new products. Okta for AI agents inside of that bucket, there were dozens of deals in the quarter, including several million dollar-plus deals, which is super exciting. But the reality is it's still very early. We do thousands of transactions every quarter. And as exciting as that is, Okta for AI agents, it's still -- it's too small to show up in the numbers right now. But going forward, especially over the next couple of years, we're super optimistic.

We think this being the system of record for Agentic for agents in the enterprise and being the system of record for agent identity, in the fullness of time, it could be the biggest category of cyber. That's how bullish we are on it. It's going to take us some time to get there, but I think we're off to a good start.

Brett Tighe
Chief Financial Officer

Yes. I would just add, Eric, like Todd said, we did close to $1 million deals in the quarter, and we've got dozens of customers. But what I said last time around, the average deal size for AI deals being bigger than the average deal size for the rest of Okta, that still remains the case. But like Todd said, it is very early on. We are still very -- it's a very nascent opportunity for us. And so looking forward to continuing to execute against that opportunity going forward.

Dave Gennarelli
Senior Vice President of Investor Relations

We'll take the next question from Jefferies.

Grant Edward Darling
Jefferies LLC, Research Division

This is Grant Darling on for Jo Gallo. Results were super impressive, and it was great to see those early AI security wins. I wanted to touch a little bit more on just competitive dynamics. Could you help us understand that scene right now? Maybe what are bake-offs looking like? Is competition more the Wild West? Are you seeing more existing customers going to you without bake-offs? Just anything on competitive dynamics would be helpful.

Todd McKinnon
Co-Founder, Chairman & CEO

Two interesting trends there. First is that the biggest competitor is confusion. We're competing against confusion. So our solution has to be clarity. And customers are confused because there's so much excitement and so much opportunity in AI. It's the natural tendency of every vendor to say, what we are doing is and what we've done in the past is critical to AI. We have the answer. We have the one answer. And I think that confuses the customer because they have 17 vendor meetings and every vendor tells them they have the right answer.

So one of the things we're very focused on is getting close to the customers and learning from them and pouring that quickly back into our product road map. And that process not only enables us to build a better product, a product that will deliver value to the customer and cut through the hype. It also that those experts on the ground help clarify in the customer's mind what needs to be done. And the simple fact is that it's a big trend. AI security is going to take a lot of different vendors working together. And we don't have all the answers. But what we do know is that there are some no regrets investments. We know that every customer is going to have to figure out where their agents are. They're coming from all over the place. They're going to have to figure out what they can connect to, and they're going to have to figure out what they can do. And no matter what happens at the model layer or the platform layer or the app layer or if applications build their own agents or they get disrupted with agents, what the companies build themselves, what -- that's all going to unfold what model is the best? Is it an open source model? Is it a frontier model, some comb -- that's all going to unfold as it will over the next several years. But the no regrets decision is you have to have this foundation of where are my agents, what can they connect to and what can they do? And this no-regret decision is what's leading to this momentum. It's leading to these dozens of deals, these million-dollar deals. And they look at us as they say, "Hey, most of the use cases for agents now, they're working on behalf of a user. They're automating workflows, helping users. And so it's a very natural place for the identity provider across the enterprise to step in there and answer these questions.

Eric Kelleher
President & COO

One thing I would add to that is in addition to the Agentic competition and the confusion, and Todd really well articulated the conversations we're having with customers right now on that front. In addition to that, the overall core business also had a very strong quarter in every category. And as we talked about our workforce strength and customer identity strength. And the competitive dynamics there, our differentiators remain the same as they've been. We have broad distribution with over 20,000 companies that already trust Okta to secure identity for their humans, to secure identity for their service accounts and having an adjacent conversation about how we are now also going to be able to secure identity for their agents as they're deployed is a natural extension for us, and it's how we can bring clarity to that overall conversation. So that distribution helps.

Our neutrality has always been a key differentiator for us as well. You hear us talk here about how we have over 8,000 integrations. Todd talked earlier about the expansive partnerships we have in the AI space and with the frontier models and technology providers, the platform providers and the hyperscalers. Our customers know that their stack is going to evolve, and they know that they're going to need to work with all of these technologies because they're advancing so rapidly. And Okta is the neutral provider that allows them to work with all of that. And so the standards that Todd mentioned, the distribution we have, the neutrality that we have, all positions us very well to be able to win this next opportunity.

Dave Gennarelli
Senior Vice President of Investor Relations

Thanks, Eric. Next up, we'll go to John DiFucci at Guggenheim.

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

Todd and Brett and Eric, listen, subscription revenue growth has really stabilized over the last 4 quarters. And our calculations of new ACV, which is going to drive future revenue growth looks really strong for this quarter against the toughest comp of the year. I guess at the same time, you've talked a lot about AI and securing AI agents. And per our work, that message is really resonating well with customers and partners in the field. But you also say it's really early. And by the way, we hear that in the field, too. I guess I'm just curious, I think we're all curious, based on your expertise and experience, when do you think this is going to turn into meaningful revenue? I know you said you had some deals that -- and it sounds like it's starting. But do you think we're going to have to wait until something really unfortunate happens in the world? Or will corporate customers get ahead of this before something like that happens?

Todd McKinnon
Co-Founder, Chairman & CEO

John, the quarter was really, really a successful quarter. The bookings in the quarter, you mentioned ACV. The bookings in the quarter were a record all-time for Q2. They're also, by the way, a record all-time for Q1 and Q3. So all-time record outside of Q4. And even if we had a competition for Q4, it would almost be on the podium, not quite, but close to be on the podium for Q4. So yes, we're very excited about the momentum.

And like you said, the materiality of the AI contribution, the business is $3 billion roughly in revenue, and you saw the cRPO growth. It's a big number. And so we're optimistic about it moving the needle on that. And we think we're on the right path. And one interesting thing is that I'm not -- the conversations I have, it's kind of like a -- it's almost like an infrastructure foundational conversation. It's not necessarily like, oh, a breach happened and now we're reacting. So I think that's good for what you said because I don't want a big breach to like knock this all down, the industry.

I want customers to proactively put these no regrets investments in place and then have the right foundation to be successful. So I'm optimistic that kind of we're on the right track there in terms of like clarifying the message for customers, having the right product in the market. And by the way, one of the things that's true and helping cut through the confusion is that we have a GA product. It's been generally available for a couple of months now. That's pretty rare actually. If you go around and ask all the vendors, is your product generally available? You get no a lot of the times or it's an acquisition that's kind of still running as an acquisition. So we have a generally available product. We've shipped 24 significant enhancements to that product in the last 2 months. We're moving fast. We're innovating. We're listening to customers. And we're trying as hard as we can to make sure we turn this into solid top line acceleration across the board as soon as possible.

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

So I guess maybe just real quick, Dave, on the same topic, Todd, like what percentage of your customers are you having these conversations with, with AI security? Is it just about all of them? Is it half of them? And because that -- just trying to understand timing a little bit.

Todd McKinnon
Co-Founder, Chairman & CEO

We have -- one of the things we've put the organization in place to -- like I mentioned, we have a dedicated expert team in the field helping customers have these conversations. And as many smart, motivated people as we put in that team to have these conversations, we fill up their calendar. And they're working 6 days a week, 12 hours a day, and we keep adding people and keep filling up the conversations. And that's leading to this record pipeline we have. Last year, we talked about -- or last quarter, we talked about record pipe. The pipe is even bigger. And there's more pipeline. Now the question is how fast it will convert, right? And we don't have 4 years of history on conversion. So when we think about the future, there's obviously some degree of being prudent about how fast that's going to convert, but the pipeline is there. Now it's up to us to take this generally available product and convert it as fast as possible.

Eric Kelleher
President & COO

Yes. And John, this product went GA on April 30, right? So 90 days ago, so it's relatively new. But to your question around how many customers, a stat that might be valuable for you, and we published this, I think, with our posted commentary today, recent surveys we run across our customers, 81% of the CISOs that we talk to are aware right now that they are exposed with agents deployed in their enterprises where they do not yet have an adequate security platform in place. So a very high percentage of our customers know that they have the need. And as Todd mentioned, our teams are working aggressively to schedule as many customer conversations as we can to make it really clear how we can help. So this has been -- we're very pleased with what we've seen in Q2.

Dave Gennarelli
Senior Vice President of Investor Relations

Next up, we'll go to Matt Hedberg at RBC.

Matthew George Hedberg
RBC Capital Markets, Research Division

Congrats from me as well. I think one of the most encouraging elements here is the 200 basis points of cRPO acceleration, and it doesn't feel like it's even being driven by AI, yet I think we all see the pipeline. So I guess, are you seeing -- could you sort of force rank the most important elements for that cRPO acceleration? And I guess as a follow-up to that, are you seeing deal cycles accelerate? Todd, you just mentioned the pipe is as big as ever. With AI-driven concerns, even if it's not AI-specific products, are you seeing faster deal cycles in this environment?

Todd McKinnon
Co-Founder, Chairman & CEO

I would rank them as follows. The first #1 thing is large enterprise. You see the 22% growth in $1 million-plus customers. So large enterprise, it has been for several quarters is a very important part of this -- the performance of the business.

The second thing I would say is that we're the only identity vendor with this broad range of products. You see the 30% of bookings and new product introductions. That's a little bit of AI, governance, privilege, identity threat protection. We have this broad platform of products, and you're seeing that really shine. So this message of you can get -- you can be -- you can buy from a one-stop shop for identity.

I was having a conversation with a large Fortune 25 customer yesterday, and they have 200 identity vendors, 200. They're already paying a significant amount of money for the part of their identity we're doing. But that -- I mean, 200, they could replace -- they could save tens of millions of dollars by standardizing on us across the board. And we're the only identity vendor that can do that. Everyone else has a silo, whether it's just access management or it's really tied to their own stack or it's very privileged or governance. We're the only one that has that breadth of products. So that's very important.

And then the third thing, which is really exciting is that these conversations about AI and our ability to help clarify how they can secure AI and how this ecosystem can fit together to help them secure, it's catalyzing change conversations that are resulting in deals for other products. So you might go in and have an AI conversation and they're like, you know what, we've been talking about upgrading our governance legacy product for 6 years. We just have to do that. Oh and by the way, we should probably think about customer identity. And so you're starting to see that happen. So that's not an AI deal per se, but it's kind of like a large enterprise. It has a bunch of vendors that wants to take out, and it's coming to the company that seems smart about AI and has a GA product and has real success there. And by the way, it has a large platform. It's a powerful combination.

Dave Gennarelli
Senior Vice President of Investor Relations

Next up, we'll go to Josh Tilton at Wolfe Research.

Joshua Alexander Tilton
Wolfe Research, LLC

Hedberg sort of stole my question, so I'm just going to maybe ask it, but a little bit more directly. Are you seeing strength in the core business because it is accelerating the pace of legacy migrations? Said differently, are customers coming up to you and saying, like, I might not need the AI security product today, but I definitely need to replace my core product because I know the legacy product I have is definitely not going to support my AI strategy whenever I get there. And then maybe the second part to that question is just 15% short-term bookings growth year-to-date. It sounds like most of that is not from AI. Like how do we think about the durability of that growth profile when AI really starts to layer into the model?

Eric Kelleher
President & COO

For the first part of your question, we absolutely believe that the exposure our customers are feeling to agents proliferating in their organizations and not yet being able to secure them is starting a lot of conversations. And those conversations, as Todd just mentioned, can expand into other areas of the portfolio. So your question around legacy migrations are people looking to the future and ensuring they have the Identity Security Fabric, the platform that can solve all those use cases, that's absolutely part of the conversations that we're seeing evolve with customers. In that sense, the agent conversation is bringing a more acute awareness to perhaps their lack of readiness and their need to find an identity -- a secure identity partner that they can have confidence is going to solve for their challenges, both today and in their road map in the future. So that's absolutely something that we think is contributing.

But overall, as you look at the core business, and Todd and Brett mentioned this, we saw strength upmarket in the $1 million and $100,000-plus cohort. We saw strength down market. We saw strength in public sector. Our largest deal of the quarter was a public sector deal. So we continue to have confidence in the durable strength of the core business, as we're also starting to convert the pipe we talked about in Q1 and continue to build in Q2 for these new AI products that have come out. And as mentioned, with multiple million dollar wins just in this first quarter of availability.

Todd McKinnon
Co-Founder, Chairman & CEO

I'll give you a very specific example. I was -- a couple of weeks ago, I was in Pennsylvania, talking to a large customer of Okta, it's a retailer. And the conversation was about a big M&A they were doing. And the company they bought had a legacy identity provider. And the conversation I had was all about AI, AI agents, Okta for AI agents, how we answer these 3 questions. And that conversation and the POC and the sales cycle that's just starting there absolutely helped us win the consolidation business to consolidate the acquired company all on Okta because it wasn't on Okta. It had legacy identity. And of course, when you kind of bring a big company in like that, everyone wants to evaluate which vendor should we use? Is this better for this? And that AI conversation catalyzes the whole thing to be, hey, Okta knows where they're going. They are the leaders here. Let's just get rid of all that old stuff and standardize on Okta. So that's a very concrete example of this phenomenon you just outlined in the abstract, but it's for sure happening day-to-day.

Dave Gennarelli
Senior Vice President of Investor Relations

Next up, we'll go to Rudy Kessinger at D.A. Davidson.

Rudy Grayson Kessinger
D.A. Davidson & Co., Research Division

Congrats on the strong results here, especially given it doesn't really sound like AI is really kicking in yet. Brett, questions for you. Your cRPO outperformance, this was the largest since fiscal Q4 of '25, which was obviously a really, really strong quarter. The outperformance in Q1 and Q2 were stronger than Q1 and Q2 last 2 years. And so does your Q3 cRPO guidance, does it assume that any of this level of stronger execution and conversion rates, et cetera, that you've seen in Q1 and Q2, does that Q3 guide assume any of that continues? Or does it still have the same kind of prudent assumptions that your Q1 and Q2 cRPO guidance have?

Brett Tighe
Chief Financial Officer

Yes. I mean you hit the nail on the head, Rudy, Q1 and Q2 this year have been quite strong in Q2, like we talked about, record non-Q4 bookings -- record non-Q4 bookings quarter for us. It was really good. So when we think about the guidance going forward, we're applying the same guidance philosophy we have for several quarters now. We've talked about getting closer to the pin. So that's really -- yes, it's pretty -- it's quite simple, right? We had a great quarter in Q2, great quarter in Q1. Q3, we're applying that same guidance philosophy. So no change in terms of any of the variables that you just mentioned.

Dave Gennarelli
Senior Vice President of Investor Relations

Next up, we'll go to Shrenik Kothari at Baird.

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

Congrats on the great results. So just to follow up on an earlier competitive question and Todd and Eric, you touched upon it a bit. We are increasingly hearing on the field, the CIO/CISOs who are exploring agentic identity, also becoming wary of these AI-first private vendors like OSS, Alteryx getting acquired, further creating that integration road map uncertainty. Are you seeing that also catalyze a move in terms of pipeline towards scaled sort of independent platform by you guys? And just on a related note, importantly, since you and Eric mentioned the phrase no regret investment a couple of times, with the simplified agent pricing that you launched and overall packaging also designed to remove this procurement friction and more scalable as deployment scale. Is that also pulling a lot of these evaluations towards other areas, as you said, and customers wanting this no-regret "durable, economically scalable plane across humans and agents"? I know it's a couple of questions, but yes.

Eric Kelleher
President & COO

I think there are about 3 in there. Let me approach the first one, and then Todd and Brett can comment on the second. The -- we absolutely believe that the uncertainty in the market right now around -- that customers are faced with. In fact, I was with a customer event last week abroad and had an opportunity to talk to a half dozen CISOs on their plans for how they're solving both core workforce and customer identity and also Agentic identity. And they share the concern that you just articulated, which is the various players in the space and the venture fund companies are moving very rapidly, and it's difficult for them to have confidence in predicting what the future is going to be.

And one of the reasons that they come to Okta and talk to Okta is specifically because we are a proven company. We've been solving this problem for 17 years for over 20,000 customers, and we've earned the trust of those customers and the partners that we work with to solve these problems. And so they have confidence in our ability to work with them for the long term as well, not just for the short term.

In addition to that, this also, again, highlights the importance of our neutrality as they know the various stack components that they're using, the various frontier models they're using, all of those technologies are evolving and leapfrogging each other regularly. And they know that a bet with Okta is a bet that's going to carry them with continuity through whatever happens elsewhere in the technology landscape. So that's absolutely one of the primary reasons our customers have confidence that Okta is a smart long-term bet.

Todd McKinnon
Co-Founder, Chairman & CEO

One of the interesting things is that a lot of these little companies are pivots. So they started off as like trying to detect service accounts or trying to do service account discovery or agent discovery, and they've more recently pivoted into this comprehensive vision like we have of discovery, where are my agents, what can they connect to, what can they do? And so a lot of their products end to end are quite immature. They might be strong in one area, but end-to-end. And that's pretty frustrating for these CISOs and CIOs I talk to because they don't want -- they're hesitant enough about buying a small vendor because they're worried about getting it acquired or having it go away or run out of money. But then they sure don't want to have to buy 5 of them to get the solution that we have. And so generally available product, comprehensive vision, iterating quickly, that really resonates. Like, I talk to CIOs and CISOs that are amazed. We're iterating faster than startups, and they're amazed by that. And yes, it's tough to go wrong when you have a trusted vendor that's already in front of all your people, in your infrastructure and trusted security vendor. It's a good position to be in.

Dave Gennarelli
Senior Vice President of Investor Relations

Let's go to Steve Koenig at Macquarie.

Steven Richard Koenig
Macquarie Research

Todd, a question for you. Maybe pivoting from these -- talking about these small upstarts, trying to do AI identity and looking at some of the majors that are all claiming to have like control towers or control planes or what have you. You got Microsoft, Salesforce, ServiceNow. Maybe just can you give us some perspective about, like, to what extent do those products overlap and compete with your Okta for AI agents? Or to what extent are they useful even if you have Okta, if you're, say, a Salesforce customer. Maybe just some perspective on are you really competing with those products? And how are you differentiated from them?

Todd McKinnon
Co-Founder, Chairman & CEO

Yes. I think Microsoft is copying us, which I think they have been for 15 years. So I think they're copying what we're doing, and they see the value of an agent registry. And I think the challenge for them is going to be -- it's really hard to be neutral, and it's really hard to make an agent registry that works as well for Amazon and Google and OpenAI and Anthropic as it does for Azure and Microsoft. But I think they have a similar vision, and it looks at least from their blogs. I don't know if they have a real product yet, but at least from their blogs, it seems like they are copying us.

And then I think ServiceNow and Salesforce are like every vendor, I think they're coming at the problem from their perspective. ServiceNow is coming at it from a very like an asset management, workflow management perspective. And we found it very valuable to work with them because we can add a lot of value in that environment. We can really help them sever the connections. The trusted connections between agents and the rest of the ecosystem, we're at that level of detail. We have the tokens, we have the protocols so that can really help the control tower from ServiceNow actually come to fruition with a control -- a kill switch that can actually kill the connections. That's been a really valuable partnership.

Salesforce is similar. It's like they're coming from more of the service and support and platform layer to some degree, but guess what, people log in to Agentforce through Okta. And we can help people securely connect Agentforce to everything else in the ecosystem because the more Agentforce agents are connected to data across the ecosystem, the better, and we can help with that. So everyone is kind of sticking in their own lane. And lucky for us, our lane is perfect for this world. Our lane is people to technology and then technology to multiple different vendors with multiple different plays in the technology space, we're very good at that. We've existed in that middle for 17.5 years. And it's a muscle we have in the company. It's a culture we have in the company, and it's really paying off.

Dave Gennarelli
Senior Vice President of Investor Relations

Let's go to Trevor Rambo of BTIG.

Trevor John Rambo
BTIG, LLC, Research Division

This is Trevor on for Gray Powell. So maybe looking at the rest of the portfolio, it seems like OIG is getting more and more mature every quarter from a technology standpoint. And while the AI side of the business is very exciting and doing well, it feels like OID is contributing more to the business right now. So maybe we take a step back, can you give us a sense of how that product performed in Q2? And are you starting to see more net new lands there? Or it's still mostly just expansion from the core base?

Todd McKinnon
Co-Founder, Chairman & CEO

It's -- the whole new product portfolio is super strong. OIG is the biggest bucket in there. So you're right, it's the biggest bucket. The whole bucket outperformed. Like I mentioned, 30% of bookings. Performance was across the board. Everything -- I think every product in there beat our plan internally, which is great. And more and more, you're seeing the -- I think when you think about OIG and Privileged Access Management and Access Management, the most important thing is that we're starting to see them be sold as a suite more because we're transforming the identity industry. We're going from an identity industry that was very stovepiped. It was OIG was separate than access management was separate than customer was separate than privilege, was separate than -- so that world is going away. And we're the only vendor that has everything under one vendor, and we can -- it's all integrated. It works great. It's not a bunch of stuff that was bought and slammed together. I mean it's been a product that -- there's some acquisitions in there, but the vast majority of it is organically developed, and -- which is better for customers.

Customers want a real platform that works together, not a platform that was bought and renamed and slammed together and sold from one salesperson. And that's really resonating. So yes, that part of the business, like I've said before in a couple of answers, that's what's driving the -- that's what drove the overperformance is the new products and the core business, workforce and customer both accelerated since the ACV growth accelerated since we last released it in Q4. So that's kind of the secret sauce there.

And you can't -- and you have to build that up over years, right? We've been working on OIG and Privilege and for 6 years, 6.5 years. And it just takes time. You can't slap stuff together and have a leading product. Leading products take time. As much as I'd like to rename it and have it be something cool and new, you can't do it, it takes time.

Dave Gennarelli
Senior Vice President of Investor Relations

Next, we'll hear from Jonathan Ho at William Blair.

Jonathan Frank Ho
William Blair & Company L.L.C., Research Division

Congratulations on the strong quarter.

Todd McKinnon
Co-Founder, Chairman & CEO

What do you think? Do you think we should rename everything?

Jonathan Frank Ho
William Blair & Company L.L.C., Research Division

It'd be pretty interesting. You usually have Okta in front of everything. So...

Todd McKinnon
Co-Founder, Chairman & CEO

It used to be Azure Active Directory and then they rename it to Entra. Yes. It sounds exactly like Okta. Why did they do that?

Jonathan Frank Ho
William Blair & Company L.L.C., Research Division

Good question. Good question. With the Permiso acquisition, can you help us understand how this sort of expands your product set? And what is post authentication behavioral, what does that opportunity look like, particularly in the AI-driven world?

Todd McKinnon
Co-Founder, Chairman & CEO

We see an interesting phenomenon in the customer base. 80% of breaches are identity-based attacks. And -- but when you look at our customer base, relatively small percentage have the most advanced Identity Threat Protection product. Identity Threat Protection, we've talked about it for a while, Jonathan. It's like very, very important and very unique. And by the way, very differentiated. None of the other IDPs have this. It's not only evaluates session risk at the time of login, but also post login, continuously monitors it, looks for risk signals, not only from Okta, but risk signals from the ecosystem from CrowdStrike and Palo Alto Networks and takes those all together and can shut down sessions after login. So it's -- any company that is running identity without this technology, it's -- you're at risk and you're behind, but not everyone is upgraded to it. So I guess this is a plug. Everyone should upgrade to this thing. And if it's not -- you don't get it from Okta, force your vendor to build it and so you can get it or you can just buy it from us.

Now Permiso, the way to think about Permiso, it's like the next generation of that. So instead of 90 native risk detections, they have 400 native risk detections. So it's a much richer and deeper set of correlative processes and machine learning that can really look at a session deeply across many vectors and many variables and detect risk. And of course, that's going to pay off in just person log in. It's going to pay off in just an agent log in. They also have a very strong threat research team they bring to the company. And it's most -- this is probably the most exciting thing. It's the perfect size for Okta to take and add to our products and extend our products for what's going to be a big area for us is this advanced identity threat protection over time.

Yes, we're really lucky to have them on board, and it's been great to get to know them. We just closed, I think the acquisition actually officially closed only today. So we've been working with them preliminarily, but now it's going to be great to dig in with them and build something great together.

Jonathan Frank Ho
William Blair & Company L.L.C., Research Division

I asked ChatGPT and it said to call the product Okta Nexus.

Todd McKinnon
Co-Founder, Chairman & CEO

Okta Nexus.

Jonathan Frank Ho
William Blair & Company L.L.C., Research Division

There you go. There you go.

Brett Tighe
Chief Financial Officer

Jonathan, I would just add, this is another one of these tech tuck-in M&As that we've done over the last several years. You've seen them be very successful in a variety of products. So we've got a good track record here, and we think this is going to be another nice addition to the portfolio of products, like Todd just said, it's pretty exciting for us. So looking forward to selling a bunch of this in the future.

Dave Gennarelli
Senior Vice President of Investor Relations

Let's go to Yun Kim at Loop.

Yun Suk Kim
Loop Capital Markets LLC, Research Division

First, congrats on the quarter. Just given how quickly agentic AI adoption is happening out there? How are you incorporating the number of AI agents in your deal because that number will probably grow really, really fast. Are those numbers staged over a period of time, so you would expect renewals to happen pretty quickly as customers will probably underestimate what they need initially?

Todd McKinnon
Co-Founder, Chairman & CEO

I'll tell you an interesting story. We were -- in terms of -- you mentioned that the -- you said that the number of agents is growing fast. So this is -- I want to be super concrete. I think it's the most helpful for everyone on the call when I'm super concrete about stuff. So we were talking to a company that ended up being a nice Okta for AI agents deal in the quarter. And when the evaluation started, we were -- we ran our technology and we detected 50 instances of a Claude agent in the environment. And they were thinking about what they wanted to do, and then we came back a few weeks and there was 1,500 Claude agents in the environment. So it's like 52 weeks, 1,500. So it's -- these customers are -- it's really tangible, the risk that they're seeing and the way this is coming into their organization. So this is catalyzing some of these deals, this onrush of agents.

To your question about licensing and pricing and renewals and so forth. The -- everyone is figuring out how to price this stuff. Now I mentioned a lot of companies don't have a GA product, so they can get up here and talk about like what they might do in this and that and the other and talk about all the stuff. We have to have a pricing model because we're in the market. And so our pricing model is per user. So if you want to buy Okta for AI agents, it's an uplift to your per user charge. The product works across different use cases. So it can be login for the user and the agent. It can be passing the agent credential across the whole chain of command. It can be governing the agent, but the pricing is per user, an extension of the per user price.

Now the first thing everyone says is, well, that's crazy. Seats are going away and you got to charge per agent. That all may be true. But the way customers are using agents now and the way they want to buy is per user. And one of our advantages is we're super close to the customers. And as I'm sure this is for sure going to evolve and as we come up with ways that work for the customer and work for Okta, how to package it and price it differently, we'll iterate quickly and give them what they want. But for now, they like the predictability. They like the investments matches the business value they see. It's helping these deals move faster. So I think that's the winning formula for now.

Yun Suk Kim
Loop Capital Markets LLC, Research Division

Is there any consumption limit on those per-user pricing?

Todd McKinnon
Co-Founder, Chairman & CEO

Yes. It's an interesting question, like we haven't -- in our products, we haven't done that much, but we're starting to add that stuff because particularly, I don't know if you guys saw the announcement we did about supporting agent SSO in our base edition across the board as we did it on Monday. Agents are going to log in way more than people. So in that product, we actually have a cap of agent SSO that we're actually not going to enforce right away, but we're putting the framework and the scaffolding in there to have a consumption-based pricing eventually because it's very likely that with agents proliferating and how they behave that the usage is going to be quite high.

Dave Gennarelli
Senior Vice President of Investor Relations

Let's go to Kingsley Crane at Canaccord.

William Kingsley Crane
Canaccord Genuity Corp., Research Division

Great. I want to ask on CIAM. So Todd, you mentioned you're talking to customers, enterprises all the time in developer CIAM, you won the hearts and minds of developers, but how Devs source products is somewhat changing with AI?

Todd McKinnon
Co-Founder, Chairman & CEO

Completely...

William Kingsley Crane
Canaccord Genuity Corp., Research Division

Yes. Well, of course, yes. But so they may be amenable to whatever vendor has suggested as an example. So like how important is it for you to be the default...

Todd McKinnon
Co-Founder, Chairman & CEO

Super important.

William Kingsley Crane
Canaccord Genuity Corp., Research Division

Those kinds of environments? And what can you do?

Todd McKinnon
Co-Founder, Chairman & CEO

Yes. We have like the last 6 months, we have tons of focus on this. You have to show up in the LLMs, you have to show up -- agents are searching for tools. And so you have to be at the top of the leaderboard there. So we're really focused on making that happen. We made a ton of progress. Yes, it's really important.

Dave Gennarelli
Senior Vice President of Investor Relations

Let's go to Mark Cash at Raymond James.

Mark Charles Cash
Raymond James & Associates, Inc., Research Division

Yes, on for Adam today. I don't know if this is for Todd or Brett, but last quarter, you mentioned how AI contribution was significant to the guide. Maybe they're a little bit expected to get big. Now 90 days later, I completely understand that AI is still relatively small compared to your scale in the quarter. But maybe can you talk about how much of the raise in the outlook was due to AI?

Brett Tighe
Chief Financial Officer

Still immaterial. Still very small. We're very early innings. But like we've talked about here, we're excited about the long-term opportunity. So for FY '27, we don't think it's going to be material. But '28 and beyond, we do -- if things keep going the way that they're going, then we do think that there is a real possibility for this to be material for the business in the long run.

Dave Gennarelli
Senior Vice President of Investor Relations

Great. We've got about 5 minutes left. Let's try to get to the rest of the questions. We'll go to Junaid at Truist.

Junaid Hamid Siddiqui
Truist Securities, Inc., Research Division

Todd, you've noted identity governance being a leading contributor in your new products bucket, and it's matured into a land product. You've talked about PAM remaining earlier in its life cycle and more of a cross-sell product with AI agents requiring capabilities like token vaulting, credential management and just-in-time privileged access. Are you seeing Agentic workloads materially increase the strategic importance of PAM? And could Agentic identity be the catalyst that drives PAM from this cross-sell motion towards a much more...

Todd McKinnon
Co-Founder, Chairman & CEO

I think that this association between PAM and Agentic is maybe -- was overemphasized. I think there was this mindset 3 years ago that agents needed privileged access, and so PAM was going to be the right place to do agents. I think it's wrong. I think it's wrong. I think agents do need privileged access for sure, but it needs to start on a much broader base. PAM is too narrow. PAM was -- had a very small number of users in super lockdown environments.

Agents, the whole dream of agents is that they're there for everyone. So it doesn't make sense to start your agent journey and figuring out where the agents are and what they can do and what they connect to. It makes no sense to start it from the most locked down thing sitting next to the Oracle database on a sun server. It makes sense to start it from the broad IDP, whether it's customers or whether it's employees and then start from there and say, hey, how can I take this token that was generated for this user and pass it through with traceability and accountability all the way through the chain it needs to go through? That's what we're seeing in the industry. It's a much better place to start, which is, I think a lot of these vendors are seeing that, and that's why it's hard for them to get their products out, and that's why the products are more narrowly adopted, and I think you're seeing us be really well positioned, which is why I think if you look at what Microsoft is doing or it's companies with the access to more users that are at an advantage there versus narrow security vendors that were more boxed in.

Dave Gennarelli
Senior Vice President of Investor Relations

Next up is Joe Vandrick at Scotiabank.

William Joseph Vandrick
Scotiabank Global Banking and Markets, Research Division

You've got Joe Vandrick here on for Patrick Colville. So Todd, we did see the release of agent SSO a couple of days ago, which is now included in the core SSO product. So we were wondering if this is a way for Okta to give your existing customers a taste of that AI agent solution? And then what will eventually cause a customer to upgrade into purchasing that broader Okta for AI agents product?

Todd McKinnon
Co-Founder, Chairman & CEO

You described it exactly right. It's spreading the kind of the core, core foundation of Okta for AI Agents, which is the directory entry that tracks the identity of an agent that puts that everywhere, ubiquitous. And so what the upsell is, is like policy, how you want to do governance, how you want to have a software MCP gateway, a virtual MCP server. There's 5 or 6 or 7 really key upsells. But in SSO addition is the core entry in the directory.

There's another more important strategic reason to do it, and that's because we're on this mission to standardize AI security and particularly this agent single sign-on across the industry. And we're doing that on many fronts. The biggest front right now is this Cross-App Access protocol. And we mentioned a huge step forward where Anthropic is supporting Cross-App Access in what they call Enterprise Managed Authorization. And we're the only identity provider that speaks this language, and they're seeing it solve a customer -- a problem in their customer base. So they're putting it in cloud, and we're trying to get every agent company to follow their lead. That's all very important.

Now imagine going to every app, Salesforce, Slack, Asana, all these companies, hundreds and hundreds of these SaaS companies and tell them, hey, we want you to support this new protocol for agent single sign-on. The first question is how many customers can do it? And now the answer is 20,000. So that's the reason to do it. It's to spread the standard and really catalyze this whole industry with customers benefiting the most.

Dave Gennarelli
Senior Vice President of Investor Relations

We're getting to what looks to be our last question from UBS.

Jack Joseph Fyda
UBS Investment Bank, Research Division

This is Jack Fyda on for Roger Boyd. Brett and Todd, I wanted to understand a little bit on the Fed side as we head into 3Q here. You mentioned you had a good 1Q on the pub sec side and where there was a nice customer identity solution win in the prepared remarks with the DoD here. So now as we enter 3Q with the IL5 certification, the DoD Zero Trust mandate, Brett would love to understand just what's baked into 3Q guidance relative to last year with the federal mandate?

Todd McKinnon
Co-Founder, Chairman & CEO

Public sector overall is really important, and I'm pumped up about it. We've done so much work. I was recently in Maryland and Virginia, talking to top government people. And like everyone else, they're really, really excited/freaked out about AI. And we have super relevant offerings for them, both on just talk about legacy identity. I mean they have the most legacy of the legacy identity and also an understanding of how critical it is. So we're -- U.S. federal DoD, public sector in general is tremendous opportunity for us. It's only -- it's less than 10% of our business right now. So we have tons of success, but -- or tons of momentum, but tons of room to run there, which is quite impressive.

The other interesting thing in U.S. federal specifically, I don't know if you're hearing this from other companies, but the first part of this year was kind of a mess. It was DOGE, no one knew they're going to have a job, every spending was being scrutinized. It's starting to normalize now. It's starting to get back to, hey, they know they have projects to do. It's like more of a same environment. They have to invest. They have to make long-term decisions. I think that's benefiting us. And like we mentioned its largest deal in Q3 was in U.S. federal. And if you look at the next couple of quarters for us, there's tons of big opportunities out there. We're working hard to close.

Dave Gennarelli
Senior Vice President of Investor Relations

Okay. Great. Well, apologies, we weren't able to get to everybody. Before you go, just let you know that in addition to the on-site and virtual bus tours coming through this quarter, we've, of course, got our Oktane Conference the week of September 21. We'll be at the Goldman Sachs Conference in San Francisco on September 9, the Wolfe Conference in San Francisco on September 10, the Piper Sandler Growth Conference in Nashville on September 15 and the JPMorgan Software Forum in Napa on October 2. So we hope to see you at one of those events. Thanks.

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