November 10, 2021

ForgeRock Third Quarter Earnings Conference Call

Operator: Welcome to ForgeRock's Third Quarter Earnings Conference Call. As a reminder, this call is being recorded. I would like to turn the call over to Mark Kang, ForgeRock's Head of Investor Relations. Please go ahead.

Mark Kang: Hello, everyone. Welcome to ForgeRock's Q3 2021 Conference Call. On the call with me today are Fran Rosch, CEO of ForgeRock; and John Fernandez, our Chief Financial Officer and EVP of Global Operations.

Before we begin, I'd like to remind you that our discussion today includes forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements related to our expected results for Q4 and full year 2021 results, our future offerings and enhancements to our current offerings to market for our offerings, customer demand for our offerings and other matters. Actual results could differ materially from those indicated by these forward-looking statements.

We encourage you to review the risk factors that we have included in our SEC filings, including our final IPO prospectus filed with the SEC on September 17, 2021, for some of the factors that could cause actual results to differ from those indicated by the forward-looking statements.

All non-GAAP numbers referenced in today's call are reconciled in our press release and slides available on our Investor Relations Web site. With that, I'll hand the call over to Fran.

Fran Rosch: Thanks, Mark, and thanks, everyone, for joining our first earnings call as a public company. Before I get started, I would like to thank our employees, customers, partners and investors for their support over the years. I'm very excited to have completed a successful IPO in September, and we are looking forward to this next stage of our growth.

We're pleased with the results we achieved in our first quarter as a public company. Revenue in the third quarter grew 38% year-over-year to $44 million, while ARR grew 30% to $164 million.

We continue to see traction with the ForgeRock Identity Cloud, our SaaS offering, which is seeing growing adoption to both new and existing customers. Identity continues to be critical to digital transformation as more companies recognize the need to deliver both safe and seamless experiences to engage our customers and keep employees productive.

We see these trends continuing into our fiscal fourth quarter, bolstering our confidence that we are well positioned to capitalize on a large and growing market for enterprise-grade identity.

Before I elaborate on our highlights of the third quarter, given this is our first earnings call, I'd like to tell you more about ForgeRock, our opportunity and why I'm so excited about the future ahead. If you take a moment to look around, it's easy to spot how the world is changing.

Activities that we used to conduct in person are now happening digitally, banking, health care and retail, to name a few. We're using facial recognition on our phones to get access to applications and ForgeRock has helped to power this new digital economy and drive this massive digital transformation.

ForgeRock is a global leader in consumer, workforce and identity, and our unique technology breaks to force compromise that has been the status quo for far too long. We help people access the connected world with intuitive digital experiences that provide enhanced security in a zero trust environment.

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Our mission is to create identity experiences for people at work, at home or on the go that are so simple and secure that 2 things happen: Identity recedes into the background completely and users never have to log in again.

We purpose-built our enterprise-grade, unified and full suite platform to serve the modern digital identity needs of enterprise who are under ever-increasing competitive pressure to deliver a personalized and seamless omnichannel experiences. This competitive pressure is driving enterprises to focus on identity as a key strategic initiative to provide differentiated experiences to increase the loyalty with consumers and enhance productivity for employees.

However, enterprises are saddled with complex heterogeneous IT environments driven by the accumulation of a myriad of applications and infrastructures resulting from decentralization of IT, mergers and acquisitions and decades of homegrown or legacy systems, increasing and evolving regulatory and compliance mandates at additional pressure as enterprises operate globally. These challenges faced by our enterprise customers presents a massive opportunity for ForgeRock.

Based on our bottoms-up analysis using our current product suite, we estimate our market opportunity to be $71 billion across consumer, workforce, IoT and services. We estimate the consumer opportunity often referred to as Consumer identity and Access Management, or CIAM, to be $41 billion, which we believe to be the fastest-growing part of the identity market.

Also, we are focused on enterprises who make up the majority of business information and communications technology spend. And a big reason why we win is because we give our customers the power of choice. Our customers choose how they want to deploy our software in their heterogeneous environments, including self-managed environments such as public and private cloud environments and through our SaaS offering, the ForgeRock Identity Cloud, or a combination of both.

ForgeRock has always had a differentiated approach to solving the Identity challenge. We launched in 2010 with the intention of building the most comprehensive digital identity platform in the market, a full-suite identity solution, purpose built for all kinds of identities that can easily integrate into complex hybrid enterprise environments and provide blazingly fast performance.

When we ask our customers why they selected ForgeRock, here are the key reasons that they give us. We provide our customers with the power to build simple, flexible identity experiences that are embedded with security by leveraging our identity tree capabilities.

Their developers love this drag-and-drop capability that allows them to quickly create customer identity journeys in minutes.

Our unified platform is purpose-built for all kinds of identities, consumers, workforce, IoT and services and across the identity life cycle, including identity management, access management, including MFA and single add-on and governance administration. Our customers want to avoid the complexity and expense related to cobbling together and operating multiple point solutions.

What they want is a more comprehensive platform like ForgeRock. Our customers choose ForgeRock because of our unique approach to the cloud. ForgeRock offers the choice between private, public and SaaS and our architecture provides our customers with more control over their data and performance. This differentiated cloud architecture is so important to global companies who face requirements to keep their identity data in their respective countries to ensure data sovereignty.

The ForgeRock platform enables our customers to create sophisticated identity experiences and to integrate into complex hybrid environments and performance scale with high reliability. More than 1,300 organizations around the world leverage our platform to manage in aggregate over 3 billion identities.

Our platform is capable of managing over 60,000 user-based access transactions per second per customer. This is particularly important for customers who have tens of millions or hundreds of millions of identities like the BBC, HSBC and Telecom cell, the largest wireless carrier in Indonesia.

Our trust network allows our customers to quickly integrate with our network of over 120 technology partners across biometrics, identity proofing and risk analysis. These integrations are part of the ForgeRock identity platform and are prebuilt, tested and always up to date.

Lastly, our customers appreciate our track record of innovation across important areas such as pass-through list authentication, governance, AI and our SaaS offering. We expect our rapid pace of innovation to drive our future growth. We've taken a modern approach to the ForgeRock Identity Cloud, our multi-tenant SaaS architecture, with complete tenant isolation provides our enterprise customers with more control over how their data is stored and where it resides.

While all companies value this increased data control, this is particularly important to ForgeRock as around 50% of our revenue is generated from customers located outside of the US. And these customers face many requirements to maintain data sovereignty and information privacy.

Our modern architecture also -- our customers to maximize performance and service reliability by not throttling or rate-limiting individual customer environments, which can be critical for enterprises, especially during large usage spikes such as Cyber Monday or media events like the World Cup or Royal Wedding.

We also protect against noisy neighbor issues so that traffic from one customer will not affect another customer's performance. The holiday season is expected to be more digital than ever. With retail trends like click and collect at curbside growing, companies cannot afford the front door of their businesses to be shut down due to large usage spike, something our unique architecture prevents.

As I mentioned previously, we provide our customers with the power to choose how they want to consume our software, whether it be self-managed or SaaS. For our new customers in Q3, 75% chose our self-managed offering and 25% chose the ForgeRock Identity Cloud.

Demand for our self-managed offering is strong because many global enterprises need a combination of on-premise and cloud deployment for their hybrid IT environment. Our SaaS offering continues to experience rapid growth since its launch with 50% of ARR from new customers in Q3 coming from SaaS.

Now let's discuss some of the recent highlights on the product front. We have continued to invest in our platform to drive innovation and the biggest areas of focus for us recently have been in the ForgeRock Identity Cloud as well as AI. We released enhanced CIAM capabilities to the ForgeRock Identity Cloud to ensure every customer touch point along a buyer's journey feels personal and effortless.

This is especially useful for companies that manage multiple brands and want to deliver personalized experiences across a variety of channels, like web and mobile and have a single view of all their identities called UI theming, it offers out-of-the-box design options for developers so they can quickly and easily configure identity journeys that recognize the consumer across brands and digital channels for a personalized experience.

Our customers are telling us that they want to go passwordless as part of their digital transformation journey. For many hybrid IT organizations, maintaining sensitive passwords on-prem while moving other operations to the cloud creates a significant challenge.

Teams must evaluate the best authentication approach that will maximize security while preserving a greater user experience. But a move to the cloud often means adding more passwords or forced password resets, which is a bad experience for users.

To help these customers, we released 2 new features password authentication and just-in-time migration. Now ForgeRock Identity Cloud empowers enterprises to move to the cloud without the headaches of managing even more passwords and causing customer inconveniences that can erode brand loyalty. We continue to provide more benefits to customers who buy the ForgeRock Identity Cloud by obtaining certifications that are important to CISOs and CIOs.

Health care records are prime targets for attackers. During the quarter, we achieved HIPAA compliance to give health care customers a safe and secure way to protect electronic health information. We also completed the SOC 2 Type 2 certification. This additional third-party industry validation confirms ForgeRock provides enterprise-grade security, availability, confidentiality and privacy for customer data managed by the ForgeRock Identity Cloud.

Our investments in AI and ML continue to benefit our customers who rely on us to better govern the identities for the workforce. We released a market-first capability to our AI-driven autonomous identity product that we believe is superior to traditional role-based access control, commonly known as RBAC used by many companies for provisioning access. RBAC can be costly to administer and often can't keep up an agile environment that changes with our new roles workshop capability, which uses AI to quickly analyze and recommend the optimal role structure to manage access for the enterprise.

Customers are the crown jewel of ForgeRock, and I'm excited to share several notable wins from the quarter. DIRECTV is a new CIAM customer. The company chose our SaaS offering, the ForgeRock Identity Cloud to establish a single unified identity platform for their millions of users.

This will give their subscribers the ability to seamlessly log in to DIRECTV services across devices, automate actions like password resets and more. Ultimately, this will lead to a superior customer experience while helping DIRECTV retain subscribers and reduce cost.

Our next customer example is a top 25 US retailer that has been using ForgeRock over the past 5 years for both consumer and workforce use cases. This customer significantly expanded their relationship with us in Q3, driven by digital transformation and more shoppers moving to online retail. They were looking to unify identity for employees, customers, partners and vendors and chose ForgeRock as their sole enterprise authentication and identity and access management platform.

On the consumer side, that leverage the ForgeRock Identity platform to improve their omni-channel capabilities as their customers were seeking the same purchase experience across in-store, online, curbside pickup and same-day delivery.

Through ForgeRock, they were able to provide a better user experience while also boosting security for the consumer and workforce use cases.

In Australia, we're helping the Australian Department of Home Affairs reopened the country's borders. Our identity platform is enabling digital passenger declaration cards to replace physical travel documentation. Travelers to Australia will be able to complete the digital passenger declaration process in minutes from their mobile device or computer.

ForgeRock, in partnership with Accenture will be used for this initiative due to the flexibility, scale and unified and extensive identity platform that we provide. An industry-leading global transportation company experiencing massive growth, particularly with its B2B business, selected ForgeRock in the quarter.

This customer saw immense potential for growth through its end users and is embarking on a new digital strategy based on identity. The company chose ForgeRock to get a 360-degree view of its customers to enable personalized digital experiences, offer new products, streamline compliance and reduce costs.

Moving to our market leadership. ForgeRock continues to be recognized by multiple third-party industry analysts. In fact, ForgeRock has once again been named a leader in the 2021 Gartner Magic Quadrant for Access Management. We're pleased to receive leadership recognition in back-to-back years. We continue to be the only identity provider recognized as a leader by Gartner for Access Management and Forrester and coverage coal for CIAM.

During the quarter, we added impressive new talent to the team. Shute Smith joined ForgeRock as our new Chief People Officer. She joined us from Cisco, where he served as Senior Vice President of People and Communities overseeing talent, rewards, recruiting and leadership development strategies.

We also appointed 2 new members to our Board of Directors, Ricky Seki and Johanna Flower. Ricky is currently the Chief Information Security Officer at Twitter and career leading and developing innovative online security infrastructures for Fortune 500 companies.

Johanna served as CrowdStrike's first CMO and was instrumental in helping the company grow from $12 million to nearly $800 million in ARR. We're pleased to welcome Shute, Ricky and Johanna to the ForgeRock team that now exceeds 750 people worldwide.

Overall, I'm very pleased with the momentum we are seeing across our business. Identity continues to be critical to digital transformation as more companies recognize the need to deliver both safe and seamless experiences to engage their customers and keep employees productive. We see these trends continuing into our fourth quarter, bolstering our confidence that we are well positioned to capitalize on a large and growing market opportunity for enterprise-grade identity. With that, I'll turn the call over to John to walk through our financial results in more detail. John?

John Fernandez: Thank you, Fran, and thank you to everyone for joining us. Before I get into the results from the quarter, I want to provide a quick overview of our business model and the key metrics that we look at to measure our business.

Customers license our software platform, primarily through subscription licenses for our self-managed or SaaS offerings. Our subscription revenue includes recurring revenue from term licenses, SaaS maintenance and support.

We run our business and focus its growth on ARR. We believe it's the best metric to measure our business performance due to ASC606, a revenue growth is impacted by the amount of revenue recognized upfront versus that which is recognized ratably, we believe our ARR numbers normalize for this.

As of the end of Q3, ARR was $164 million, up 30% year-over-year. Our ARR growth was driven by new customer wins and expansion within our existing customer base through more identities, more use cases, more product modules and more deployments. Based on our process of continuous improvement in targeted lead generation, qualification of leads and pipeline and conversion rates, we have confidence in the sustainability of our growth.

We have a very strong customer base that includes many of the world's leading brands. We ended Q3 with over 1,300 customers globally who leverage our software to manage over 3 billion identities. We ended Q3 with 369 large customers defined as customers with ($100,000) of ARR or greater. Our large customer base grew 18% year-over-year, and our large customers represented 89% and of our total ARR as of the end of Q3.

Our net retention rate for Q3 was 112%. Our average ARR from new customers in Q3 again exceeded ($200,000) of ARR, demonstrating that we tend to land larger with new customers. Also, due to an increase in new logo acquisition over the past few quarters, the mix of new ARR from existing customers was slightly lower on a relative basis.

Total revenue was $44.2 million an increase of 38% year-over-year. We have transitioned to a nearly 100% subscription model over the past 2.5 years and 96% of our Q3 revenue was subscription revenue. Our revenue growth was primarily driven by the growth in our customer base, expansion within existing customers, multiyear subscription licenses and SaaS revenue.

Before turning to profitability and expense items, I would like to point out that I will only be discussing non-GAAP results going forward. Non-GAAP results exclude stock-based compensation and restructuring and impairment charges. Our press release contains our GAAP results and reconciliations to our non-GAAP results.

Q3 gross profit was $36 million, and gross margin was 81%. As we continue to scale our SaaS offering, we will see increasing investment in cloud infrastructure and incur higher hosting costs. Our strong subscription gross margin is offset by our professional services gross margin as we continue to invest in supporting our customers through further build-out of our customer success and support organizations.

Turning now to operating expenses. We remain focused on investing for growth to capture additional share in the large market opportunity that Fran discussed earlier. Sales and marketing expense for Q3 was $21.4 million compared to $17.5 million in Q3 last year. This represents 48% of total revenue for Q3 compared to 55% in Q3 of last year. The% of revenue improvement was primarily driven by an increase in sales productivity.

As we continue to expand our footprint and scale our business, we believe we will continue to see operating leverage. R&D expense in Q3 was $10.3 million compared to $9.3 million in Q3 last year. This represents 23% of total revenue for Q3 versus 29% in Q3 of last year.

Given the strong demand we are seeing for consumer and workforce identity use cases, we continue to invest in advancing our products and innovation in areas such as our enterprise SaaS offering, our AI machine learning capabilities and our identity trees that empower our customers to create orchestration journeys focused on great customer experience without compromising security. We believe the continued investment in our product differentiation will further cement our market leadership in identity.

G&A expense was $9.7 million for the quarter compared to $5.3 million in the third quarter last year. G&A was 22% of revenue versus 16% of revenue last year. Our G&A expenses increased in absolute dollars and as a percentage of revenue due to new public company expenses in Q3 of this year. However, over time, we expect growth in G&A expense as a percentage of revenue to decrease as we optimize our back office costs as we scale.

Operating loss was $5.7 million versus a loss of $4.9 million in Q3 a year ago. Operating margin was negative 13% versus negative 15% a year ago. Despite the increase in absolute dollars year-over-year in our operating expenses, we continue to see operating leverage in our business with revenue growth outpacing the growth in our operating expenses.

We view our strong top line growth as an indicator that our investments are paying off, and we expect this trend to continue. Turning to the balance sheet. We ended the second quarter with $378.1 million in cash, cash equivalents and marketable securities.

Turning now to guidance. For the fourth quarter of 2021, we expect Total ARR of $175 million to $176 million, representing 29% year-over-year growth. Total revenue of $46.5 million to $47.5 million. Non-GAAP operating loss of $9 million to $8 million, and non-GAAP net loss per share of $0.14 to $0.12, assuming weighted average shares outstanding of approximately 82.3 million.

For the full year 2021, we expect total revenue of $175.5 million to $176.5 million, non-GAAP operating loss of $20.5 million to $19.5 million, and non-GAAP net loss per share of $0.96 to $0.94, assuming weighted average shares outstanding of approximately 41.8 million. That concludes my remarks for Q3. And now I'll turn the call back to Fran for closing remarks.

Fran Rosch: Thank you, John. Thanks to everyone for being with us on our call today. I am very pleased with the momentum that we are seeing across our business. The market for both consumer and workforce identity is massive and growing. And we believe ForgeRock is well positioned to capitalize on the opportunity. And this is just the beginning. Operator, you may now open the call for questions.

Operator: (Operator Instructions) And we'll take our first question today from Hamza Fodderwala with Morgan Stanley.

Hamza Fodderwala: Just first question for Fran. I was wondering if you could elaborate a little bit more on the ForgeRock Identity Cloud recently achieving HIPAA compliance. What does that mean for you?

And obviously, ForgeRock differentiates itself and being able to handle more complexity over some of those competitors. So I'm curious how you see the opportunity within the health care vertical, how penetrated do you think it is? And what's the strategy there going forward?

Fran Rosch: Great, Hamza. Thanks so much and good to hear from you. Yes, I think the health care vertical continues to really grow and be important to us. I think with digital transformation and a lot of it driven through COVID, everyone is doing much more online. And that has led a lot of people to look for health care and telemedicine and move all that online.

And -- when I talk to our health care customers, they're looking to compete in their markets and to differentiate. And a lot of that is how easy it is for patients to come in and enroll and get access and meet with doctors and that OE of use is identities to keep part of that.

But there's also a lot of requirements around data privacy and security. So it really is a vertical that really drives towards what ForgeRock does really well. and it's been growing and we expect to continue to grow, which is why it made sense for us to get the HIPAA certification as that's really important to so many different health care companies.

Hamza Fodderwala: Got it. And maybe just a follow-up for John. You mentioned that 25% of new customers who bought the SaaS solution. I think -- If I remember correctly, I think you were getting to a point where close to half of new customers were buying the SaaS solution.

So I'm curious why maybe that was a little bit lower in Q3. Does it have to do with summer seasonality? Do you expect to see a stronger Q4 in a SaaS offering? Any color you can give us there would be helpful.

John Fernandez: Sure, Hamza. Yes. So that's right. In Q2, we shared that 41% of our new customers had bought SaaS, and that was now 25%. We also showed a new metric which was that, that

25% was actually 50% of the new ARR. And so we are seeing a little bit of that variability from period to period.

And we think that's great because remember that in this period, when 25% bought SaaS, 75% chose self-managed, which was really important in the enterprise because we could serve them quite uniquely with our offering and with choice.

As we look at this and as we look forward to next year, we'll look to provide some additional detail around of our total NARR, what is SaaS. Then obviously, as we look forward into '23, we'll actually go to full revenue segmentation is the intended plan. So that's a little bit of additional color for you on that.

Operator: We'll hear from Sterling Auty with JPMorgan.

Sterling Auty: Let's carry on with the SaaS questions. And just what I'm curious about is when you look at the customers that chose SaaS and you look at those use cases, is there any common thread that you kind of can pull through in terms of either size of the deployment that they're looking at or use case that can give you a trend line for what you think the bigger adoption areas for SaaS will be?

Fran Rosch: Yes. I think what we're seeing is, as John mentioned, we're really glad to be able to have both options because there's good market -- the opportunity for SaaS as well as self-managed, and we really kind of have it all covered. But when we look at SaaS, I think we're seeing a lot of traction in the science space.

I think that companies, whether they be in digital retail or financial services and how they're expanding, they want to move fast, and they don't want to run a lot of infrastructure. So we're really seeing that CIAM use case is the one that's driving most of the growth in our SaaS, especially from new customers. So we're going to continue to focus on that.

And then, of course, once we get that CIAM business, we have the opportunity to cross-sell and upsell workforce as well. So I think the trend we're seeing is the same opportunity is bigger, more greenfield, a lot of homegrown, and that's a key driver of our size business.

And to that point, we're seeing some big deals. DIRECTV was really important for them to have an easy CIAM solution so that they can make it easy for their subscribers to enroll and get services and manage their accounts. And they were ready to go to the cloud so they can move fast. That's kind of an example of the type of CIAM deals we're seeing.

Sterling Auty: That makes sense. And then one follow-up. When you look at the new business that you brought on in the quarter, can you give us a sense of how much of that was actually displacement of perhaps some of the legacy solutions like the old SiteMinder versus greenfield projects that were being put into place?

Fran Rosch: So generally, because we tend to focus on enterprise and large enterprise, there's typically something in place today because these customers already have employees, and they already have customers. So we're typically displacing something I think it is a mix that we kind of put into 3 groups.

There is a fair amount of homegrown, especially in the CIAM space, where people just try to build their own identity solutions and they're finding they're not giving them the flexibility that they need to be build great journeys or they can't scale on performance they need. So that's kind of one is homegrown.

Second is definitely the legacy. We've done some additional Oracle and CA Siteminder replacements this past quarter, and we consider -- continue to see that as a big opportunity going forward. I was looking at our pipeline recently, there's definitely a fair amount of that's still in the pipeline.

And then the third is a lot of enterprises, large enterprises have kind of a group of point solutions. They just put in place over the years, maybe 1 for mobile and 1 for med, 1 for call center. They're looking to kind of consolidate and looking for a comprehensive solutions. So that's the kind of way we look at what we're displacing. As I said, we're typically always displacing something.

Operator: Next, we'll hear from Patrick Colville with Deutsche Bank.

Patrick Colville: Congrats guys on your first quarter as a public company. So my question is about, I guess, the market more broadly. This time 12 months ago, doing the kind of the mix of the pandemic.

Now we're hopefully exiting the pandemic. Can you just help us understand how the demand environment has shifted throughout that process. And then I guess probably the most interesting bit is what are you guys seeing? Or what did you see over the last kind of 3 months?

Fran Rosch: Yes. I would say that when John and I look at this, we almost see kind of different phases of COVID, what we call kind of tailwinds. I think in the first 6 months or a year, companies were just trying to react very quickly to respond to the shift to digital as it wasn't safe to go out and do a lot of business in person. So most of have had something in place today, and they had to just scale it up and make it work. So for a lot of our customers, that would really successfully.

We talked about one of our customers that a 300% increase in the digital banking traffic is really they just had to scale up and adopt. And then I think as people realize this digital transformation is not going back. People aren't going to go back to the old ways. They're going to stay with digital that they had to really say, okay, it's going to become our primary channel.

What do we have in place today? Is it able to give us a depth of experience is we need the security gets scale and perform? Because when identity is a front door to your business, it has to be reliable and be there. So we're kind of seeing a second wave that people are saying, we've got to move to something.

And we talked about 1 of our customers in the quarter is a US retailer. And as they see the holidays coming on board, they know they're going to have less people coming in person shopping, especially with some of the labor shortages and more digital. So more opportunity for us to expand. So we've seen acceleration in the past 3 months, more FPs, bigger pipeline, particularly in CIAM, but workforce as well.

Patrick Colville: Great. That's helpful. And then I guess as I think about the ARR guidance, fiscal fourth quarter, a pretty big number -- Can you just help us understand the kind of the puts and takes there? And the reason I ask is doing kind of analysis around sequential dollar ARR as and kind of quarter-on-quarter growth. I guess how much conservatism is in that number?

John Fernandez: Yes. So that represents 29% year-over-year growth. And we have a lot of confidence in that number -- in that range. And for us, Q4 does because of enterprise buying cycles, it does tend to be our largest quarter. So I think that's important and historically fits the pattern very well. So again, a lot of confidence in the range in those numbers. And obviously, the point we're out in the quarter as well, we have a lot of visibility into our pipeline.

Fran Rosch: And just, Patrick, when you talk about the puts and takes, we look at those puts and takes as brand new logos that are coming on and buying contributing new ARR to ForgeRock, our ability to cross-sell and upsell into our base, which we have a lot of opportunities on both CIAM to workforce, workforce to CIAM as well as software to SaaS, help our customers move to the cloud.

And that third put and take is our growth retention of our customers. And we've invested more in customer success more on our professional services, and we're seeing our customers stick with us longer. So we are very focused as a company on those puts and takes and contributing to our confidence in that guidance.

Operator: Gregg Moskowitz with Mizuho has our next question.

Gregg Moskowitz: Okay. Fran, wondering if you could speak to what the early feedback has been like for your ForgeRock Autonomous Identity offering? And then maybe also tell us why it's important to IGA solutions out there.

Fran Rosch: Yes. It's great, Gregg. Thank you. So let me just kind of frame the problem we hear from customers. And what IGA and our Autonomous Identity product is all about is helping our enterprise customers understand of their employees who has access to what and to be able to manage that access. And there are kind of 2 competing priorities that our customers have.

One is, of course, they want all the employees to be productive, right? They want everyone to get access to the applications and services they need to do their job. So that lends them to kind of say, "Well, let's open it all up and get people get access." But the flip side is they have to manage risk. And this whole idea of kind of least privilege, where the goal is to have only people have access to what they need, so it just reduces risk because you don't have that inappropriate access from someone.

So we really recognize that they have these competing priorities. And what our auto ID does is brings the AI capability to be able to look at the groupings of users and exactly what they need to do their jobs and be able to kind of automatically ensure that employees are only approved to get access to if they need their jobs and they don't get access to what they don't need.

And that way that we can deliver both for our customers, which is productivity of their workers while managing the risk. So that's kind of what we're all about with auto ID and IGA. And we've seen some great growth this year, and we see a great pipeline going forward, and it will continue to be a big focus and a big differentiation for us in 2022.

Gregg Moskowitz: All right. That's very helpful. And then, John, your subscription SaaS support and maintenance revenue line item, saw some good acceleration this quarter on a year-over-year basis. I would expect that within that line item, SaaS is probably the predominant driver, if not the sole driver of that, but any more color there would be helpful.

John Fernandez: Yes, sure. So we did see that nice 54% increase in that subscription SaaS support and maintenance. And yes, a part of that is the SaaS product that we have. And really, it's really that ongoing focus, again, just around the ratable and continuing to do that, but SaaS certainly contributed meaningfully for the first time.

Operator: Our next question comes from Gray Powell with BTIG.

Gray Powell: Great. Congratulations on the quarter.

Fran Rosch: Thanks, Gray.

Gray Powell: Absolutely. Yes. I want to follow up on an earlier question. So I mean, if I just kind of look at the building blocks, you're growing the customer base in the high teens net retentions in the 12% to 13% range the last few quarters.

You have a new SaaS product that's gaining momentum. Is there any reason why ARR growth would not further improve off of this current 30% pace over the next few quarters?

John Fernandez: Yes. So I think we, again, forecasted 29% with respect to our guidance for Q4, and we feel very confident about that. I think we have a lot of upside levers in our growth that we focus on. I think our installed base is a big one.

One of the things we talked about throughout the IPO process was the opportunity to unleash the multiple in moving some of our customer base over from self-managed to SaaS. And that statement remains true. We continue to be able to -- we're in the early innings of that, so to put it.

And so I think that remains a huge opportunity for upside. And that's really focused on, obviously, not just ARR overall, but also net retention as a core metric. And so that's one of those have been SaaS on a stand-alone basis, aside from the installed base remains a huge opportunity.

Again, we see that as an opportunity to sell into, not to migrate additional usage into our installed base to attract new customers and even to attract new customers that are really in verticals that are more prone to buy SaaS that we have access to now with that product. So a variety of different vectors there that we believe provide strong upside for us in the future.

Gray Powell: Understood. That's really helpful. And then just one other one. So yes, I know the SaaS business is relatively new. How should we think about the SaaS business as we exit 2021? Are you still expecting it to be in sort of that 10% of ARR range by the end of the year, just kind of a ballpark number?

John Fernandez: So we -- yes, our expectations have not changed from that perspective, and we do anticipate to disclose that number at the end of Q4. And as I mentioned, then to provide that into

'22 and then revenue segmentation in '23. That is the intended plan and expectations remain the same, correct.

Fran Rosch: And I'd just say, we as a company are really focused on that SaaS market. we think that more and more that's the way customers are going to want to consume identity to be able to get going very quickly. And we have a unique cloud architecture and that's really resonating in the market.

So this ability to have the tenant isolation to ensure the reliability and the scalability of that service, it's really resonating. So I think that, as John said, we're not -- we feel comfortable in that guidance we've given in the past on that. But we, as a company, are really focusing on the growth and the success of that SaaS offering.

Operator: Next, we'll hear from Rob Owens with Piper Sandler.

Robbie Owens: Maybe you could touch a little bit on partners and alliances and just I know it was in the slide deck relative to 2020, but the trends that you're seeing throughout this year? And does that lend more towards the workforce side or the CIAM side?

John Fernandez: Rob, thanks. This is John. I'll take the first part of that. As it relates to the S-1 as a reminder for folks, what we talked about was 15%, 31% and 44% for 2018, 2019 and 2020, respectively, that were -- the level of opportunities that we had closed that were sourced out of our partner network, and that's a significant point of leverage for the company.

As we are today sitting here at the end of Q3, we are now above those 2020 levels of 44%. So I think that remains a consistent, strong leverage point for the company along those lines.

Fran Rosch: Yes. And I would say that when we look at our partners, they're incredibly great accelerators for our business, right? They are working with their customers on larger digital transformation initiative and they're bringing ForgeRock in. And we've got great connections in with the identity and the security team which does lean itself a little bit more to the workforce to your question, Rob.

But we are forging new relationships with both within those GSIs and engaging with their teams that do digital transformations because they've got huge initiatives that they are engaging with retail companies, governments, public sectors to help them go through that digital transformation, separate from their security and identity practices. So we're bringing on new types of partners.

So we're really looking at and understanding that these 2 segments, CIAM Workforce are both critically important and critically large, but also different. And that means we have to have different messaging and different types of partners to ensure that we're in as many of the opportunities as possible.

Robbie Owens: Great. And I guess focusing a little bit on OpEx and where some of the efficiency was in the quarter. Could you touch on R&D a little bit? I mean it took $1 million year-over-year. And I think it given the scale of the company, you might be leaning in a little bit more aggressively on product development. So how should we think about this line item going forward?

John Fernandez: Yes. I think we're seeing a lot of efficiencies, right? I think for a variety of reasons. Our platform is all organic single platform, single-code base, right?

So I think we have the ability to both be an enterprise where we've always been, provide a lot of functionality, do it across self-managed and SaaS and be able to do that in that single code base. I think that's really a core reason for that. And what you're still seeing is this incredible innovation that we're released out to the market period-over-period.

So I think we will see that go down over time to reasonable levels from a long-term model perspective that we shared during the IPO roadshow, we believe without question that will hold is what we trend to. And I don't think we'll see any levels of variability in that in either the short or mid-term.

Fran Rosch: Our Chief Product Officer, Peter Barker is going to love that you asked that question. So thanks for asking. And as John talks about it, that's as a% of revenue. So obviously, in real dollars, it's continuing to go up. year-on-year quite a bit.

We're going to continue to bring on new engineering talent to continue to invest in innovation. So it will be scaling. It will just be scaling slightly slower than our top line. So we'll see the improving productivity. But we are a technology company at our heart, and we are hiring more engineers right now. So if you know anybody send them over.

Operator: Next, we'll hear from Joel Fishbein with Truist.

Joel Fishbein: Fran, can you talk about the competitive dynamics around that DIRECTV deal, and if it was a competitive bake off?

Fran Rosch: Sure. Yes, it absolutely was a competitive bake-off. And I think almost every opportunity we have is that. And companies are out there looking at their alternatives and they're choosing ForgeRock over the competition. And we feel really, we've never felt better about our ability to win these deals.

And I think it comes down to kind of 4 main reasons when we look at the impact competition. One is just the ability to have a full identity experience on a single platform across identity management, authentication, MFA and governance, a single platform to cover all identities.

And then we -- especially in the cloud, people really appreciate the uniqueness of that architecture. The ability to have that type of tenant isolation of our multi-tenant size that gives them confidence in the performance, the scalability and the data privacy is really huge. I think that's why we see our ability to win with great customers like DIRECTV and many others.

Joel Fishbein: And then just as a follow-up, can you talk about the large deal pipeline? And have you seen an uptick since you become a public company?

Fran Rosch: So our pipeline is absolutely increasing for sure. Sometimes it's hard to tag exactly what it's for. Is it because it went public is because we -- the Gartner MQ came out, recognized as the leader again, growing our sales team and our go-to-market engine, but we've definitely seen an uptick in the pipeline and feel confident that we've got the pipeline to deliver on the growth rate here for the company.

Operator: We'll now hear from Jonathan Ho with William Blair.

Jonathan Ho: Let me echo my congratulations. I just wanted to start out with a little bit more color on some of the sales productivity gains that you referenced. I just want to understand maybe what's driving that productivity? What inning are we in, in terms of seeing that productivity to expand? Any color would be helpful.

Fran Rosch: Sure. And we're really proud of the sales productivity improvements we're seeing. And in -- I would say the inning we're in is maybe the fourth or fifth inning, lots of progress behind us, but more to go. And we see there are really a handful of things driving those sales productivity. One is just the advancement of our technology, right? Our products are getting better. We've got more features, more things to sell. So that's opening up more opportunity for us.

Second is, I think, the market awareness of ForgeRock is growing. We're just getting more at that here. And I think certainly, to Joel's question, the IPO is going to help in that as well.

So our marketing team continued to execute on a digital-first approach, creating more leads, more opportunities. So that's great. That's leading to increased pipeline. And my goal is to have one of our sales reps to be able to wake up in the morning and have these leads and these opportunities coming to them that they can continue to work to be efficient.

Now we've got work to do. It's always a work in progress, but we are seeing improvements there. So that's resulting in sales acceleration, especially with SaaS. We're seeing shorter sales cycles for SaaS versus self-managed, which is helping with that.

We talked a little bit about partner leverage, right? These GSIs as well as dozens of regional identity partners around the world recognize that we're kind of uniquely positioned to help their customers be successful. So they're really bringing us into these opportunities.

So again, it's like a lot of things. There's many things that are driving it. We've made great progress, and we're going to continue to focus on that in the months and years ahead.

Jonathan Ho: Got it. Got it. And then in terms of the role-based capabilities that you talked about replacing the traditional RBAC capabilities. Can you talk a little bit about sort of the customer reception for that? And maybe just a little bit more detail on understanding why this is important, why this is a differentiator and potentially a game-changer.

Fran Rosch: Sure. I think that identity government administration is critically important to company for the reasons that we talked about, right? This ability to understand who is access to what have great workflow to keep people productive, but also manage risk for the business.

But companies have challenges because the organizations are very dynamic. People are always coming and going, changing jobs and to be able to really have a fluid system, it can be really difficult. So we have this role-based structure.

We can leverage our algorithms to kind of develop a role-based structure not based on an organizational chart, which is always going to change and not necessary a reflection of what you do, but really by understanding and looking at the history of what these groups of people get access to.

So it really helps us very accurately and automatically do the true access needs for a particular employee base so they can do their jobs without over-provisioning access and driving of risk for the company. So I think this is kind of a holy grail of challenges that companies have been dealing with for years.

They've dealt with someone maybe rules-based or manual approvals, and we're just bringing kind of a new way of doing it. We think that we're getting a lot of positive reception. And that really opens up opportunity for us to really have that full workforce identity platform across identity management, access, governance, powered by this AI platform. So it's a big deal, and we're going to continue to make investments on that and continue to see as a driver of growth into '22.

Operator: Our last question will come from Shaul Eyal with Cowen and Company.

Shaul Eyal: Congrats on the first quarter as a public company. I was a little late to the call, so apologies if anything was already addressed. But maybe Fran and John, how is the hiring plans coming along versus your internal plan so far?

Fran Rosch: Yes. What I would say, Shaul, it's never been a better time to recruit for talent at ForgeRock. We're doing a great job attracting great new talent across engineering, sales, marketing, support or professional services, really the whole group, we announced our new Chief People Officer and did great by bringing Shute Smith on board. We're on track to meet our hiring plans that we need to continue to power our business.

And there's clearly a war for talent out there, and we hear about that. But we're doing a great job bringing new talent. And it's important to stay focused on. And we kind of look at talent as attracting great talent, but it can't stop there.

It's all about development and how we're investing and developing our teams. So that we can retain because we know there's a big cost of attrition at the same time, managing out some people who might -- we might have outgrown. So we're really looking at an end-to-end talent management approach as a company.

And certainly helps that. The visibility that we got, I'd also say just identity. I mean, everybody kind of recognized the importance of identity of digital transformation. So it's a great time to attract the talent at ForgeRock.

Shaul Eyal: Got it. Got it. And then maybe my follow-up question, Fran, or John, on pricing. We have seen a number of companies taking pricing up to account for either supply chain, looming issues or just overall healthy demand trends. Have you increased pricing as of late or planned to do so near term?

John Fernandez: Yes. I think there's 2 different elements going on. One is we continue to be able to effectuate annual price increases with our customers. And I think that's been reasonable and not met with resistance. But I think there's more strategic things to do than just to raise the prices as they are.

And we really looked at how we bundle. And I think there are mechanisms there that we've looked at, we've been able to find significant value through some of the rebundling techniques that we've done and some that are still to come that are giving us some real uptick and really, I think, helping to lift that pricing and improve margins. So we're going to continue to put additional focus on that with some of the things that we'll do in '22.

Fran Rosch: Thank you. And really thanks to all of you for attending our earnings call today and for the great questions. We really look forward to engaging with all of you in the days and weeks ahead to talk about ForgeRock, which we love to do.

Before we conclude the call, I'd just like to make a few final remarks. Our ForgeRock team is focusing on 4 key business dynamics that are bolstering our confidence that we're well positioned to capitalize on the large and growing market opportunity for enterprise-grade identity, and that will target a durable and sustainable ARR growth rate for our company.

And those 4 dynamics are really this enterprise demand for a unified full-suite identity platform across CIAM, workforce and IoT. Our unique position really is a leader in science, where we're seeing the fastest growth in the company.

The fact that we have choice, we can either have self-manage or SaaS makes that full market available to ForgeRock. And then our unique approach to SaaS, that architecture that gives our customers confidence in performance and security. So we're very excited about the future. So thanks again for your time today, and we look forward to further dialogue in the days and months ahead. So back to you, operator.

Operator: Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.