OKTA FOURTH QUARTER FISCAL 2024 POSTED COMMENTARY

FEBRUARY 28, 2024

Okta is posting this prepared commentary and earnings press release to its investor relations website to provide shareholders and analysts with additional detail prior to its quarterly earnings webcast. The webcast begins today, February 28, 2024, at 2:00 p.m. PT (5:00 p.m. ET) and will include executive comments followed by Q&A. To access the webcast of the executive comments and Q&A session, visit the IR section of our website at investor.okta.com. A reconciliation of GAAP and non-GAAP results is provided in the tables following these prepared remarks. Okta references a number of numeric or growth changes below. Unless otherwise noted, each such reference represents a year-over-year comparison.

TOP-LINE METRICS

Revenue

Total revenue for the fourth quarter grew 19% to $605 million, driven by a 20% increase in subscription revenue. Subscription revenue represented 98% of our total revenue. International revenue grew 17% and represented 21% of our total revenue. F/X had an immaterial impact on total revenue growth.

Workforce Identity and Customer Identity Growth and ACV Split

Workforce ACV grew 17% and represented 60% of total ACV. Customer identity ACV grew 21% and represented 40% of total ACV. Over the long term, we continue to expect the mix to trend towards 50/50 with healthy growth in both businesses.

Remaining Performance Obligations (RPO) and Current RPO

RPO, or subscription backlog, grew 13% to $3.385 billion. Total RPO growth accelerated sequentially based on the strength of Q4 results including weighted average contract term lengths that hit a two year high. Our overall average term length remains just over 2.5 years.

Current RPO, which represents subscription backlog we expect to recognize as revenue over the next 12 months, grew 16% to $1.952 billion.

CUSTOMERS AND CUSTOMER SUCCESS

Okta added 150 net new customers in the quarter, bringing its total customer base to 18,950, representing growth of 8%.

We continue to see strong growth with large customers for both workforce and customer identity. In Q4, we added 120 customers with $100,000 plus annual contract value, or ACV. Our total base of $100,000 plus ACV customers grew 14% to 4,485, and represents over 80% of total ACV.

Similar to the past few quarters, our fastest growing cohort was customers with $1 million plus ACV, which grew over 30%. Okta now has nearly 400 $1 million plus ACV customers.

A few notable examples of new customer wins and upsells in Q4, which come from a wide range of industries.

- One of the largest telecommunications companies in North America recently chose Okta as its Workforce Identity platform as it migrates its identity infrastructure to the cloud. With over 100,000 employees and contractors, the ability to securely manage all identities within one solution was crucial. This organization will leverage Okta for device trust and phishing resistant MFA.

- A North American insurance company that provides services to over 200,000 customers was an exciting new Customer Identity Cloud win this quarter. Before Okta, the company lacked visibility into various services used by its members due to siloed legacy identity solutions. The company chose Okta to support its initiative to build a secure, unified view across its members to help drive revenue.

- A leading sports betting company was a great cross-sell this quarter. Having become an Okta workforce identity customer last year, the company chose Okta Customer Identity Cloud to help navigate state-by-state regulations and provide seamless, flexible, and secure authentication for its new sports betting app. The company needed an enterprise-grade security architecture and reliable platform with guaranteed uptime to prepare for a surge in new users.
- A popular online game platform and existing workforce identity customer was an exciting new Okta Identity Governance win this quarter. The company had a manual process for providing access and running access certifications, which made it difficult to adhere to strict audit and compliance regulations. Okta Identity Governance will automate the process with a modern, easy to implement solution aimed at mitigating security risks and improving efficiency.

PRODUCTS

Acquisition of Spera Security

In early February, Okta completed the acquisition of Spera Security, an identity security platform, to broaden our identity threat detection and security posture management capabilities.

Spera Security helps organizations reduce risk and drive down fragmented enterprise IT and costs. Security and IT practitioners will be able to capitalize on:

- Enhanced identity security visibility and protection
- Ongoing compliance reporting and monitoring with industry-verified identity security benchmarks
- Broader ITDR capabilities with identity posture management

With organizational attack surfaces expanding alongside the increased use of SaaS and Cloud applications, companies need broader visibility and a central place to constantly monitor for threats and exposure. As the leading identity partner, we remain committed to equipping our customers with the tools and knowledge needed in an increasingly challenging environment, and we're excited about how Spera Security will deliver more secure outcomes for our customers. Okta aims to make the product generally available in Spring 2024.

Okta Identity Governance (OIG)

Okta Identity Governance has seen strong results in its first year of global availability. We continue to see significant spend uplift with customers buying OIG as it's typically a third or more of their total Workforce Identity Cloud spend.

We continue to make enhancements to OIG and, in January, Entitlement Management became generally available. Entitlement Management is the foundational platform to discover, manage, and govern fine-grained entitlements to SaaS and on-prem applications. Entitlement Management is a cloud-native, easy-to-use solution that will open the door for our customers to efficiently manage entitlements from all of their downstream resources in a single pane of glass. This critical advancement to OIG will help minimize security gaps, right-size licenses, and meet compliance needs.

Customer Identity Cloud

Highly Regulated Industry (HRI) is a new solution suite in limited early access on Okta's Customer Identity Cloud that delivers Financial Grade Identity™ with security, privacy, and user experience controls for sensitive customer scenarios beyond login – such as accessing sensitive data, changing account information, money transfers or open banking payments. Within this launch, Okta is collaborating closely with existing customers, particularly in the banking sector, as well as other highly regulated industries to gather insights and test this new feature set. While HRI initially targets financial services, it is applicable across industries and we've received interest from customers in tech, telecommunications, manufacturing, healthcare and more. HRI global general availability is planned for mid-2024.

SOCIAL IMPACT & SUSTAINABILITY

Okta's vision is to free everyone to safely use any technology. For us, how we build toward that vision is as important as what we build. This means striving to do right by our stakeholders, including customers, employees and our wider communities. It also means staying the course on our commitments to social and environmental impact through Okta for Good. We believe that our business thrives when the ecosystem around us is thriving, and we are committed to remaining a trusted partner to all of our stakeholders in the years ahead.

In service of Okta for Good's vision, we've announced a new $50 million commitment over the next five years out of the Okta for Good Fund to address the world's most pressing challenges across three key areas:

- Tech for Good: Accelerating digital transformation and cybersecurity for the social sector and strengthening the cybersecurity posture of civil society organizations.
- Digital Equity: Closing the digital divide and expanding economic opportunity by making cyber and tech jobs more accessible to all.
- Climate Action: Supporting security and resilience for communities most impacted by climate change.

Next week on March 4th, 2024, Okta will publish its FY24 Okta For Good Impact Report. Below are a few highlights from the report:

- $7.3M in cash contributed by the Okta for Good Fund, Okta, Inc., and Okta employees, representing a 22% increase
- $6.0M in technology and services donated, representing a 25% increase
- 88% employee participation in Okta For Good (giving and/or volunteering)
- ~4,000 nonprofits supported through giving and volunteering
- 21 employees and interns brought on as part of our workforce development initiatives
- Continued efforts to achieve 100% renewable electricity to match electricity consumption of our offices, estimated electricity consumption of our remote workforce, and third-party cloud service electricity consumption

SELECT FINANCIAL REVIEW

Net Retention Rate

Consistent with prior quarters, gross retention rates remained strong in the mid-90% range. Our dollar-based net retention rate for the trailing 12-month period was 111%, down from 115% last quarter. The sequential decline primarily reflects the macro related pressures on the business over the last four quarters and was consistent with expectations.

The net retention rate may fluctuate from quarter-to-quarter as the mix of new business, renewals, and upsells fluctuates. As noted previously, we've experienced a shift in our business mix to more upsell and cross-sell versus new business.

Non-GAAP Operating Expense & Profitability (all numbers are non-GAAP unless otherwise noted)

Profitability was better than expected due to the combination of revenue overperformance and our continued focus on spend efficiency measures.

Total operating expenses for the quarter were $365 million, an increase of 2%. Operating profit was a record 21%, compared to 9% in Q4 last year.

Total headcount at the end of Q4 was flat sequentially at approximately 5,900. Note that Okta announced a headcount reduction of approximately 400 at the beginning of Q1 FY25.

Cash Flow

Q4 free cash flow was a record $166 million, yielding a free cash flow margin of 28%. Free cash flow was significantly better than expected, driven by billings and strong collections.

We opportunistically repurchased $150 million of our 2026 convertible debt notes in Q4. This resulted in a $15 million GAAP-only gain.

Over the past four quarters we've repurchased $1.050 billion of debt resulting in a $106 million GAAP-only gain. We will continue to regularly evaluate our capital structure and capital allocation priorities.

Our balance sheet remains strong, anchored by $2.202 billion in cash, cash equivalents and short-term investments. Our cash, cash equivalents and short-term investments position, net of remaining convertible debt, is $1.042 billion.

FY24 Highlights

- Revenue increased by 22%
- Non-GAAP operating margin increased from -1% to 14%
- Free cash flow margin increased from 3% to 22%
- Added 1,350 net new customers
    - Added over 550 customers with an ACV of $100,000 or more

FINANCIAL OUTLOOK

As always, we take a prudent approach to forward guidance. We are factoring in a stable, but still challenging macro environment, as well as the potential impact on our business related to the October 2023 security incident.

For the first quarter of FY25, we expect:

- Total revenue of $603 million to $605 million, representing growth of 16% to 17%;
- Current RPO of $1.915 billion to $1.920 billion, representing growth of 13%;
- Non-GAAP operating income of $108 million to $110 million, which yields a non-GAAP operating margin of 18%;
- Non-GAAP diluted net income per share of $0.54 to $0.55, assuming diluted weighted-average shares outstanding of 182 million; and
- Free cash flow margin of approximately 25%, which is inclusive of a cash impact of approximately $24 million related to the headcount reduction expected to be paid out in Q1.

For FY25,

- We are raising our revenue outlook and now expect revenue of $2.495 billion to $2.505 billion, representing growth of 10% to 11%;
- We are raising our outlook for non-GAAP operating income and now expect non-GAAP operating income of $455 million to $465 million; which yields a non-GAAP operating margin of 18% to 19%;
- Non-GAAP diluted net income per share is expected to be $2.24 to $2.29, assuming diluted weighted-average shares outstanding of 182 million; and
- We are raising our free cash flow margin outlook for FY25 to approximately 21%.

Q1 and FY25 outlook assumes a static 26% non-GAAP effective tax rate.

CONCLUSION

We invite you to join us for a webcast today, February 28, 2024, at 2:00 p.m. PT (5:00 p.m. ET) that will include executive comments followed by Q&A. To access the webcast of the executive comments and Q&A session, visit the IR section of our website at investor.okta.com.