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OKTA SECOND QUARTER FISCAL 2025 POSTED COMMENTARY

August 28, 2024

Okta is posting this prepared commentary, press release, and earnings presentation to its investor relations website to provide stockholders and analysts with additional detail prior to its quarterly earnings webcast. The webcast begins today, August 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 this Posted Commentary. 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 second quarter grew 16% to $646 million, driven by a 17% increase in subscription revenue. Subscription revenue represented 98% of our total revenue. International revenue grew 17% and represented 21% of our total revenue.

Remaining Performance Obligations (RPO) and Current RPO

RPO, or subscription backlog, grew 16% to $3.505 billion. Our overall average term length is approximately 2.5 years.

Current RPO, which represents subscription backlog we expect to recognize as revenue over the next 12 months, grew 13% to $1.995 billion.

Workforce Identity and Customer Identity Growth and Annual Contract Value (ACV) Split

Workforce Identity ACV grew 15% and represented 60% of total ACV. Customer Identity ACV grew 16% 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.

SELECT FINANCIAL REVIEW

Net Retention Rate

Our dollar-based net retention rate for the trailing 12-month period was 110%. The net retention rate primarily reflects the macro related pressures on the business over the last four quarters. As noted previously, we've experienced a shift in our business mix to more upsell and cross-sell versus new business. The net retention rate may fluctuate from quarter-to-quarter as the mix of new business, renewals, and upsells fluctuates.

Non-GAAP 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 expenses for the quarter were $498 million, flat year-over-year. Operating profit margin was a record 23%, compared to 11% in Q2 last year.

Total headcount at the end of Q2 was approximately 5,940.

Cash Flow

Q2 free cash flow was $78 million, yielding a free cash flow margin of 12%. Free cash flow was significantly better than expected, driven by operating profitability and strong collections.

We opportunistically repurchased $43 million of our 2026 convertible debt notes in Q2. This resulted in a $3 million GAAP-only gain. Okta has repurchased $1.093 billion of debt since Q1 of fiscal 2024. We will continue to regularly evaluate our capital structure and capital allocation priorities and continue to be opportunistic with debt repurchases going forward.

Our balance sheet remains strong, anchored by $2.358 billion in cash, cash equivalents and short-term investments. Our cash, cash equivalents and short-term investments position, net of remaining convertible debt, is $1.241 billion.

CUSTOMERS AND CUSTOMER SUCCESS

Okta added 200 net new customers in the quarter, bringing its total customer base to 19,300, representing growth of 5% year-over-year.

We continue to see strong growth with large customers for both workforce and customer identity. In Q2, we added 70 customers with $100,000 plus ACV. Our total base of $100,000 plus ACV customers grew 10% to 4,620, and represents over 80% of total ACV.

Similar to the past few quarters, our fastest growing cohort was customers with $1 million plus ACV.

A few notable examples of new customer wins and upsells in Q2, which come from a wide range of industries.

- ❖ A U.S. federal civilian agency was a large Workforce Identity Cloud upsell in Q2. Okta was first deployed to a subset of the agency and will now expand to cover over 300,000 employees and contractors. The Q2 transaction was an expansion from an original pilot of 50,000 users. As more applications were onboarded into Okta, the agency experienced increased security and a better user experience leading to an accelerated adoption across the organization. Okta will be a key component within its digital transformation project to enhance security and simplify user experience.

- ❖ A Fortune 500 multinational transportation company was a new Workforce Identity win this quarter. The company sought to replace ineffective legacy identity products that did not integrate well with its applications. Okta's robust identity platform, including Okta

Identity Governance and Okta Privileged Access, was a key differentiator. The company plans to roll out Okta FastPass to create a more secure and reliable identity experience for approximately 80,000 employees and contractors.

❖ A European transportation company was a new Customer Identity win this quarter. The ongoing maintenance costs of the company's homegrown system had become too high and had difficulty meeting security requirements. The company purchased Okta's Customer Identity Cloud to bolster its security posture and drive bookings through personalized marketing and more effective customer engagement.

❖ An insurance company chose Okta's Device Access, Identity Threat Protection with Okta AI, and Okta Identity Governance as they look to migrate their internal identity strategy to Okta. Okta's Device Access solution was the perfect fit to add passwordless MFA and help ensure users couldn't access apps without first being authenticated by Okta. The company plans to utilize several of Okta's Identity solutions to protect their workforce and proactively remediate threats.

OKTA SECURE IDENTITY COMMITMENT

Identity has become the primary enterprise security entry point for all workforce and consumer applications. Meanwhile, the volume and complexity of attacks against entities large and small continues to accelerate. Detecting and protecting against these attacks is mission critical.

As a world-leading independent Identity company, Okta is at the forefront of dealing with attacks. Underscoring our dedication to leading the industry in the fight against identity attacks, we launched Okta Secure Identity Commitment earlier this year.

Its four main pillars are:

- Elevate our industry to be more protected against identity attacks

- Champion customer best practices to help ensure they are best protected
- Provide market-leading secure identity products and services
- Harden our corporate infrastructure

As part of this initiative, we have already delivered or announced a number of important features and upgrades within both our corporate infrastructure and our product portfolio. You can find a summary of these updates in this white paper.

SOCIAL IMPACT & SUSTAINABILITY

Okta published our first environmental policy and our first human rights webpage. These capture our aims, commitments, strategy and approach to environment and human rights, as well as provide concrete examples of our work.

FINANCIAL OUTLOOK

As always, we take a prudent approach to forward guidance. We are factoring a challenging macro environment consistent with what we've experienced in Q2. We also continue to incorporate some conservatism into our outlook as we monitor potential impacts related to last year's security incident.

For the third quarter of FY25, we expect:

- Total revenue of $648 million to $650 million, representing a growth rate of 11%;
- Current RPO of $1.985 billion to $1.990 billion, representing a growth rate of 9%;
- Non-GAAP operating income of $118 million to $120 million, which yields a non-GAAP operating margin of 18%;
- Non-GAAP diluted net income per share of $0.57 to $0.58, assuming diluted weighted-average shares outstanding of approximately 183 million; and
- Free cash flow margin of approximately 20%.

For FY25,

- We are raising our total revenue outlook and now expect revenue of $2.555 billion to $2.565 billion, representing a growth rate of 13%;
- We are raising our non-GAAP operating income and now expect non-GAAP operating income of $535 million to $545 million, which yields a non-GAAP operating margin of 21%;
- Non-GAAP diluted net income per share is now expected to be $2.58 to $2.63, assuming diluted weighted-average shares outstanding of approximately 182 million; and
- We are raising our free cash flow margin outlook for FY25 to approximately 23%.

Q3 and FY25 outlook assumes a static 26% non-GAAP effective tax rate.

CONCLUSION

We invite you to join us for a webcast today, August 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.

FORWARD-LOOKING STATEMENTS

This prepared commentary contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our financial outlook, business strategy and plans, market trends and market size, opportunities and positioning. These forward-looking statements are based on current expectations, estimates, forecasts and projections. Words such as "expect," "anticipate," "should," "believe," "hope," "target," "project," "goals," "estimate," "potential," "predict," "may," "will," "might," "could," "intend," "shall" and variations of these terms and similar expressions are intended to identify these forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond our control. For example, global economic conditions have in the past and could in the future reduce demand for our products; we and our third-party service providers have in the past and could in the future experience cybersecurity incidents; we may be unable to manage or sustain the level of growth that our business has experienced in prior periods; our financial resources may not be sufficient to maintain or improve our competitive position; we may be unable to attract new customers, or retain or sell additional products to existing customers; customer growth has slowed in recent periods and could continue to decelerate in the future; we could experience interruptions or performance problems associated with our technology, including a service outage; we and our third-party service providers have failed, or were perceived as having failed, to fully comply with various privacy and security provisions to which we are subject, and similar incidents could occur in the future; we may not achieve expected synergies and efficiencies of operations from recent acquisitions or business combinations, and we may not be able to successfully integrate the companies we acquire; and we may not be able to pay off our convertible senior notes when due. Further information on potential factors that could affect our financial results is included in our most recent Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission. The forward-looking statements included in this prepared commentary represent our views only as of the date of this prepared commentary and we assume no obligation and do not intend to update these forward-looking statements.

NON-GAAP RECONCILIATION

The accompanying tables contain the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP net margin, non-GAAP diluted net income per share, non-GAAP tax rate, free cash flow and free cash flow margin. Certain of these non-GAAP financial measures exclude stock-based compensation, non-cash charitable contributions, amortization of acquired intangibles, acquisition and integration-related expenses, restructuring costs related to severance and termination benefits and lease impairments in connection with the closing of certain leased facilities, certain non-ordinary course legal settlements and related expenses, amortization of debt issuance costs and gain on early extinguishment of debt. Acquisition and integration-related expenses include transaction costs and other non-recurring incremental costs incurred through the one-year anniversary of the transaction close.

Stock-based compensation is non-cash in nature and is generally fixed at the time the stock-based instrument is granted and amortized over a period of several years. Although stock-based compensation is an important aspect of the compensation of our employees and executives, the expense for the fair value of the stock-based instruments we use may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. We believe excluding stock-based compensation provides meaningful supplemental information regarding the long-term performance of our core business and facilitates comparison of our results to those of peer companies.

We also exclude non-cash charitable contributions, amortization of acquired intangibles, acquisition and integration-related expenses, restructuring costs related to severance and termination benefits and lease impairments in connection with the closing of certain leased facilities, certain non-ordinary course legal settlements and related expenses, amortization of debt issuance costs and gain on early extinguishment of debt from the applicable non-GAAP financial measures because these adjustments are considered by management to be outside of our core operating results.

In addition to these exclusions, we subtract an assumed provision for income taxes to calculate non-GAAP net income. We use a fixed long-term projected tax rate of 26% in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. The non-GAAP tax rate could be subject to change for a variety of reasons, including changes in tax laws and regulations, significant changes in our geographic earnings mix, or other changes to our strategy or business operations. We will periodically reevaluate the projected long-term tax rate, as necessary, for significant events based on our ongoing analysis of relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

We define free cash flow, a non-GAAP financial measure, as net cash provided by operating activities, less cash used for purchases of property and equipment, net of sales proceeds, and capitalized software. Free cash flow margin is calculated as free cash flow divided by total revenue. We use free cash flow as a measure of financial progress in our business, as it balances operating results, cash management, and capital efficiency. We believe information regarding free cash flow provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations, and to fund other capital expenditures. Free cash flow can be volatile and is sensitive to many factors, including changes in working capital and timing of capital expenditures. Working capital at any specific point in time is subject to many variables, including seasonality, the discretionary timing of expense payments, discounts offered by vendors, vendor payment terms, and fluctuations in foreign exchange rates.

We periodically reassess the components of our non-GAAP adjustments for changes in how we evaluate our performance and changes in how we make financial and operational decisions, and consider the use of these measures by our competitors and peers to ensure the adjustments remain relevant and meaningful.

Okta believes that non-GAAP financial information, when taken collectively with GAAP financial measures, may be helpful to investors because it provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, and should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies.

The principal limitation of these non-GAAP financial measures is that they exclude significant expenses that are required by GAAP to be recorded in the Company’s financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by the Company's management about which expenses are excluded or included in determining these non-GAAP financial measures. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP.

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Non-GAAP Operating Income and Non-GAAP Operating Margin

	Three Months Ended July 31,		Six Months Ended July 31,	
	2024	2023	2024	2023
Operating loss	$ (19)	$ (162)	$ (66)	$ (322)
Add:				
Stock-based compensation expense	148	185	299	351
Non-cash charitable contributions	1	1	4	2
Amortization of acquired intangibles	18	18	37	41
Restructuring costs	—	17	—	24
Legal settlements and related expenses	—	—	7	—
Non-GAAP operating income	$ 148	$ 59	$ 281	$ 96
Operating margin	(3)%	(29)%	(5)%	(30)%
Non-GAAP operating margin	23 %	11 %	22 %	9 %

Non-GAAP Net Income, Non-GAAP Net Margin and Non-GAAP Diluted Net Income Per Share

	Three Months Ended July 31,		Six Months Ended July 31,	
	2024	2023	2024	2023
Net income (loss)	$ 29	$ (111)	$ (11)	$ (230)
Add:				
Stock-based compensation expense	148	185	299	351
Non-cash charitable contributions	1	1	4	2
Amortization of acquired intangibles	18	18	37	41
Amortization of debt issuance costs	1	1	1	2
Gain on early extinguishment of debt	(3)	(42)	(3)	(73)
Restructuring costs	—	17	—	24
Legal settlements and related expenses	—	—	7	—
Tax adjustment	(63)	(13)	(86)	(23)
Non-GAAP net income	$ 131	$ 56	$ 248	$ 94
Net margin	5 %	(20)%	(1)%	(21)%
Non-GAAP net margin	20 %	10 %	20 %	9 %
Weighted-average shares used to compute net income (loss) per share, basic	168,612	162,755	168,045	162,051
Non-GAAP weighted-average effect of potentially dilutive securities	13,752	15,987	13,358	15,430
Non-GAAP weighted-average shares used to compute non-GAAP net income per share, diluted	182,364	178,742	181,403	177,481
Net income (loss) per share, diluted	$ 0.15	$ (0.68)	$ (0.06)	$ (1.42)
Non-GAAP net income per share, diluted	$ 0.72	$ 0.31	$ 1.37	$ 0.53

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Free Cash Flow and Free Cash Flow Margin

	Three Months Ended July 31,		Six Months Ended July 31,	
	2024	2023	2024	2023
Net cash provided by operating activities	$ 86	$ 53	$ 305	$ 182
Less:				
Purchases of property and equipment	(5)	(2)	(6)	(2)
Capitalized software	(3)	(2)	(7)	(7)
Free cash flow	$ 78	$ 49	$ 292	$ 173
Net cash provided by (used in) investing activities	$ 156	$ 495	$ (38)	$ 554
Net cash used in financing activities	$ (50)	$ (315)	$ (87)	$ (641)
Operating cash flow margin	13 %	10 %	24 %	17 %
Free cash flow margin	12 %	9 %	23 %	16 %