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OKTA THIRD QUARTER FISCAL 2025 POSTED COMMENTARY

December 3, 2024

Okta is posting this prepared commentary, press release, and earnings presentation to its investor relations (IR) website to provide stockholders and analysts with additional detail prior to its quarterly earnings webcast. The webcast begins at 2:00 p.m. PT (5:00 p.m. ET) on December 3, 2024 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 third quarter grew 14% to $665 million, driven by a 14% increase in subscription revenue. Subscription revenue represented 98% of our total revenue. International revenue grew 11% and represented 21% of our total revenue.

Remaining Performance Obligations (RPO) and Current RPO

RPO, or subscription backlog, grew 19% to $3.659 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 $2.062 billion.

SELECT FINANCIAL REVIEW

Net Retention Rate

Our dollar-based net retention rate for the trailing 12-month period was 108%. 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 $527 million, an increase of 6% year-over-year. Operating profit margin was 21%, compared to 15% in Q3 last year.

Total headcount at the end of Q3 was approximately 6,000.

Cash Flow & Balance Sheet

Q3 free cash flow was $154 million, yielding a free cash flow margin of 23%. Free cash flow was better than expected, driven by improved operating profitability and strong collections.

We opportunistically repurchased $257 million of our 2025 and 2026 convertible debt notes in Q3. This resulted in a $16 million GAAP-only gain.

Since Q1 of fiscal 2024, Okta has repurchased $1.350 billion of debt resulting in a $125 million GAAP-only gain. We will continue to be opportunistic with debt repurchases going forward and regularly evaluate our capital structure and capital allocation priorities.

Our balance sheet remains strong, anchored by $2.248 billion in cash, cash equivalents and short-term investments. Our cash, cash equivalents and short-term investments position, net of remaining convertible debt, is $1.388 billion.

Convertible Debt Summary

In September 2019, we issued the 2025 Notes due September 1, 2025 with a principal amount of $1,060 million. As of October 31, 2024, $510 million principal amount of the 2025 Notes remain outstanding. In

June 2020, we issued the 2026 Notes due June 15, 2026 with a principal amount of $1,150 million. As of October 31, 2024, $350 million principal amount of the 2026 Notes remain outstanding.

CUSTOMERS AND CUSTOMER SUCCESS

Okta added 150 net new customers in the quarter, bringing its total customer base to 19,450, representing growth of 3% year-over-year.

We continue to see strong growth with large customers for both workforce and customer identity. In Q3, we added 85 customers with $100,000 plus in annual contract value (ACV). Our total base of $100,000 plus ACV customers grew 8% to 4,705, and represents over 80% of total ACV.

Similar to the past few quarters, our fastest growing cohort was customers with $1 million plus ACV. The $1 million plus cohort now represents approximately $1 billion in total ACV.

A few notable examples of new customer wins and upsells in Q3, which come from a wide range of industries.

- A Global 2000 technology company became a new Workforce Identity Cloud customer. Before Okta, the company lacked automation, secure access for partners, and experienced delays in accessing critical resources. The company needed to comply with the Presidential Executive Order on Improving the Nation's Cybersecurity and implementing a Zero Trust Maturity Model and secure its over 100,000 servers. Okta was selected to provide a secure platform with a modern approach to Identity to enable teams to move faster without sacrificing user experience.

- A global real estate company was a new Customer Identity Cloud and Fine Grain Authorization (FGA) win this quarter. Okta will be the front door to the company's new app that streamlines the customer experience of its residents and prospective residents across its portfolio of over one million properties. With Okta FGA, the company can also manage access and authorization for family members of residents across the company's properties.

- A large European online retailer expanded with Identity Threat Protection (ITP) this quarter. The company chose ITP to strengthen its security posture and mitigate risk of potential security incidents, especially ahead of the busy holiday shopping season. The Universal Logout capability of ITP will be a key part in helping reduce overall security risk.

- The U.S. division of an Asia-based bank was a new Workforce, Okta Identity Governance and Okta Privileged Access win this quarter. After evaluating multiple solutions to meet state mandated compliance requirements, Okta was selected because it was the only vendor to provide modern access management, governance and privileged access in a single solution. This converged Identity solution will harden the division's security environment while helping it automate manual processes and meet compliance requirements.

Additionally, Q3 saw particular strength in the public sector, including these notable wins:

❖ A large U.S. defense agency was a new Okta's Customer Identity Solution win. The agency sought to reduce cybersecurity risks and operationalize the next step in their Zero Trust strategy. Okta was chosen because of its resiliency and market leading platform that can meet stringent DoD compliance, audit and consent management requirements.

❖ A large federal agency and existing Okta customer was facing challenges where clinicians could not access critical applications in a timely manner, creating risks to patient experience. To address this, the agency expanded with Workforce Identity Cloud to enable seamless authentication, ensuring quick access to applications and supporting the delivery of high-quality care.

❖ A U.S. defense agency was a new Workforce win this quarter. The agency's legacy on-prem technologies were unable to keep up with modern security requirements and could not deliver the availability and uptime necessary. Okta will support the agency's authentication, including passwordless MFA, and lifecycle management.

OKTANE HIGHLIGHTS

We recently showcased that innovation at Oktane, our biggest customer and partner event of the year. In-person attendance was up over 25% versus last year and represented hundreds of millions of dollars of pipeline. We highlighted more than 30 products, features, and capabilities across our Workforce and Customer Identity Clouds that will deepen our customers' security and help them create exceptional customer experiences, while enabling us to reignite our growth with a focused approach.

At Oktane, Okta announced the new IPSIE working group within the OpenID Foundation chartered to create the first unified identity security standard for enterprise applications. IPSIE, or Interoperability Profile for Secure Identity in the Enterprise, will standardize Identity security across the industry and help foster an open ecosystem where building and using enterprise applications that are secure by default and easy for everyone. Our technology worldview is that Identity security should be simplified and standardized. Okta is leading that charge by working to make this future open and available to everyone.

Visit Oktane on demand to relive the best moments of the biggest identity event of the year.

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GARTNER MAGIC QUADRANT

Gartner recently published their 2024 Access Management Magic Quadrant* evaluation. Okta was recently recognized as a Leader for the eighth consecutive year. Okta earned the highest scores for product strategies, delivered product sets, and marketing strategy and execution.

*Source: Gartner®, Magic Quadrant™ for Access Management, Brian Guthrie, Nathan Harris, Abhyuday Data, Michael Kelley, December 3, 2024.

SOCIAL IMPACT & SUSTAINABILITY

Okta is proud to announce a strategic partnership between Okta for Good and NetHope, which includes a $2.5 million commitment aimed at helping to enhance cybersecurity resilience across the nonprofit sector. Additionally, Okta for Good has again partnered with CodePath, this time to create a first-of-its-kind Open Source Cybersecurity Lab, part of the larger Okta Cybersecurity Workforce Development Initiative, to deliver hands-on, real-world cyber training to 3,000 underrepresented college students annually. Okta has also published blog posts discussing Responsible AI Principles, Responsible AI Innovation Practices and Human Rights Privacy Considerations to highlight how, at Okta, it's of the utmost importance to build systems that are functional and robust while also safe, secure, and inclusive.

FINANCIAL OUTLOOK

As always, we take a prudent approach to forward guidance. We are factoring a macro environment consistent with what we've experienced in Q3. We are no longer incorporating additional conservatism into our outlook related to the potential impacts from last year's security incident.

For the fourth quarter of FY25, we expect:

- Total revenue of $667 million to $669 million, representing a growth rate of 10% to 11%;
- Current RPO of $2.130 billion to $2.135 billion, representing a growth rate of 9%;
- Non-GAAP operating income of $154 million to $156 million, which yields a non-GAAP operating margin of 23%;

- Non-GAAP diluted net income per share of $0.73 to $0.74, assuming diluted weighted-average shares outstanding of approximately 182 million; and
- Free cash flow margin of approximately 32%.

For FY25,

- We are raising our total revenue outlook and now expect revenue of $2.595 billion to $2.597 billion, representing a growth rate of 15%;
- We are raising our non-GAAP operating income and now expect non-GAAP operating income of $573 million to $575 million, which yields a non-GAAP operating margin of 22%;
- Non-GAAP diluted net income per share is now expected to be $2.75 to $2.76, assuming diluted weighted-average shares outstanding of approximately 182 million; and
- We are raising our free cash flow margin outlook for FY25 to approximately 25%.

Q4 and FY25 outlook assumes a static 26% non-GAAP effective tax rate.

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; we may

experience challenges successfully expanding our marketing and sales capabilities, including further specializing our sales force; 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 identify, integrate and/or realize the benefit of any 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.

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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 October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Operating loss	$ (16)	$ (111)	$ (82)	$ (433)
Add:				
Stock-based compensation expense	135	172	434	523
Non-cash charitable contributions	1	2	5	4
Amortization of acquired intangibles	18	18	55	59
Restructuring costs	—	4	—	28
Legal settlements and related expenses	—	—	7	—
Non-GAAP operating income	$ 138	$ 85	$ 419	$ 181
Operating margin	(2)%	(19)%	(4)%	(26)%
Non-GAAP operating margin	21 %	15 %	22 %	11 %

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Net income (loss)	$ 16	$ (81)	$ 5	$ (311)
Add:				
Stock-based compensation expense	135	172	434	523
Non-cash charitable contributions	1	2	5	4
Amortization of acquired intangibles	18	18	55	59
Amortization of debt issuance costs	1	1	2	3
Gain on early extinguishment of debt	(16)	(18)	(19)	(91)
Restructuring costs	—	4	—	28
Legal settlements and related expenses	—	—	7	—
Tax adjustment	(34)	(19)	(120)	(42)
Non-GAAP net income	$ 121	$ 79	$ 369	$ 173
Net margin	2 %	(14)%	— %	(19)%
Non-GAAP net margin	18 %	13 %	19 %	10 %
Weighted-average shares used to compute net income (loss) per share, basic	170,217	164,381	168,775	162,836
Non-GAAP weighted-average effect of potentially dilutive securities	11,732	14,904	12,815	15,254
Non-GAAP weighted-average shares used to compute non-GAAP net income per share, diluted	181,949	179,285	181,590	178,090
Net income (loss) per share, diluted	$ 0.00	$ (0.49)	$ (0.08)	$ (1.91)
Non-GAAP net income per share, diluted	$ 0.67	$ 0.44	$ 2.03	$ 0.97

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Free Cash Flow and Free Cash Flow Margin

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2024	2023	2024	2023
Net cash provided by operating activities	$ 159	$ 156	$ 464	$ 338
Less:				
Purchases of property and equipment	(1)	(3)	(7)	(5)
Capitalized software	(4)	(3)	(11)	(10)
Free cash flow	$ 154	$ 150	$ 446	$ 323
Net cash provided by (used in) investing activities	$ (99)	$ 20	$ (137)	$ 574
Net cash used in financing activities	$ (265)	$ (133)	$ (352)	$ (774)
Operating cash flow margin	24 %	27 %	24 %	20 %
Free cash flow margin	23 %	26 %	23 %	19 %