OKTA 10-K Analysis Report

Generated: April 06, 2026

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EXECUTIVE SUMMARY

Company: OKTA (OKTA) **Sector:** Technology **Report Date:** April 06, 2026

INVESTMENT REVIEW BOARD ESTIMATED PRICE: $89.27

INVESTMENT RECOMMENDATION

Metric	Value
Current Price	$80.19

Investment Review Board Est. Price	$89.27
DCF (anchor used in blend)	$88.44
DCF Scenarios (Bear / Base / Bull)	$73.57 / $88.44 / $120.39
Comparables	$92.75
Blended Target Price	**$89.74**
Upside/Downside	**+11.9%**
Recommendation	**HOLD**
Time Horizon	12 months

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- Investment Review Board (IRB) prices reflect a committee-level synthesis of multiple valuation methodologies and risk scenarios. Detailed rationale and reconciliation are provided in the Appendix Detailed Comparison.

Market-implied bridge context

Valuation context (sensitivity bridge): The base DCF output ($88.44) is 10% away from the current price ($80.19). For context, a sensitivity "bridge" was run to identify what combination of assumptions would be consistent with prices near the current level, without changing the reported DCF anchor. Across the bridge runs, the closest market-aligned scenario ended near **$77.36** and informs the sensitivity discussion, while the report's valuation table continues to present: DCF **$88.44**, comparables **$92.75**, blended **$89.74**. **Structural driver:** Over the last ~5 years, OCF margin has averaged ~21.3%, while capex has consumed ~2% of OCF, resulting in an FCF margin closer to ~20.4% than to OCF margin. See **Sensitivity Analysis - Valuation Bridge Commentary** for the detailed bridge discussion. **Closest bridged intrinsic value:** ~$77.36 (closest to current). **The sensitivity assumptions used to get closest were as follows:** Rev0 $3,183,837,690.00, Rev3 $3,459,920,137.33, Rev5 $3,492,876,733.14 ; Y1 margin ~28.2%; terminal margin ~31.7% ; 3Y CAGR ~2.8% ; 5Y CAGR ~1.9% ; r ~10.6%; g ~1.8%; fade 8y. **Market-implied assumptions (from the closest bridged scenario):** 3Y revenue CAGR ~2.8%; 5Y revenue CAGR ~1.9%; terminal margin ~31.7%; fade period 8 years; discount rate r ~10.6%; terminal growth g ~1.8%. **Bridge path (accepted iterations):** 0 step(s) accepted; key drivers moved: operational/capital assumptions.

INVESTMENT THESIS

• Okta's dual-platform architecture and over 7,000 integrations create a strong competitive moat in the identity security market.

• The company's expansion into AI agent identity governance positions it well for future growth as AI adoption increases.

• Okta's transition to profitability with a net income of $235 million in FY2026 demonstrates a compelling financial turnaround.

KEY RISKS

• Intense competition from Microsoft, which bundles identity management with its broader ecosystem, poses a significant threat.

• Past cybersecurity incidents have damaged Okta's reputation, potentially impacting customer retention and acquisition.

• The company's high stock-based compensation remains a dilution risk, despite a declining trend.

VALUATION SUMMARY

Method	Target Price	Weight
DCF	$88.44	70%
Comparables	$92.75	30%
Final Target	**$89.74**	**100%**

Methodology: As Okta is classified as UNDERVALUED, the DCF method is given more weight (70%) to emphasize intrinsic value. The comparables method is weighted at 30% to provide a market-based check. This approach balances the intrinsic valuation with market sentiment, while acknowledging the company's strong cash flow potential.

VALUATION METHODOLOGY & RECONCILIATION

Valuation Methods Summary

Method	Target Price	Weight	Contribution
Discounted Cash Flow	$88.44	70%	$61.91
Comparables Analysis	$92.75	30%	$27.82
Blended Target Price	**$89.74**	**100%**	**$89.74**

Methodology Explanation

The Methodology for weighting dcf/comparables has 4 levels, PREMIUM, ELEVATED, UNDERVALUED, REASONABLE These descriptions are the relative valuation compared to peers in the sector Given that Okta is classified as UNDERVALUED, we prioritize the DCF method, which captures the intrinsic value based on cash flow projections. The DCF target is slightly lower than the comparables target, reflecting a more conservative approach to growth and margin assumptions. The comparables target provides a market-based perspective, but given the UNDERVALUED classification, intrinsic valuation is more relevant.

Key Assumptions

- Discount rate of 9.6%
- Terminal growth rate of 2.3%
- 3-year revenue CAGR of 2.8%
- Terminal margin of 31.7%

Sensitivity & Ranges

The sensitivity analysis indicates that the DCF valuation is sensitive to changes in discount rate and terminal growth rate. A lower discount rate or higher growth rate could significantly increase the target price. The bear scenario suggests a price close to the current market price, indicating limited downside risk.

Further Detail

See **Discounted Cash Flow Valuation** and **Sensitivity Analysis** sections below for full model outputs and assumptions.

BUSINESS OVERVIEW

OKTA, INC. (OKTA) - BUSINESS SECTION ANALYSIS

Prepared by: Quantitative & Fundamental Research Division

EXECUTIVE SUMMARY

Okta, Inc. represents the dominant independent pure-play identity security platform in a market undergoing structural secular expansion. With over 20,000 customers, a dual-platform architecture spanning both workforce and customer identity, and an emerging strategic positioning around non-human identity (NHI) and AI agent governance, Okta occupies a critical and increasingly irreplaceable position in enterprise security infrastructure. At a current stock price of **$80.19**, the investment thesis hinges on whether Okta can successfully defend its independence premium against Microsoft's bundling aggression, accelerate international penetration from a 20% revenue base, and capitalize on the nascent but potentially transformative AI agent identity management opportunity before competitors establish footholds. This report provides a comprehensive dissection of Okta's business fundamentals as disclosed in its FY2026 10-K filing.

I. COMPANY OVERVIEW

Corporate History & Structure

Okta was incorporated in 2009 as Saasure Inc., a California corporation. In 2010, it reincorporated as Okta, Inc., a Delaware corporation. The company's principal executive offices are located at 100 First Street, Suite 600, San Francisco, California 94105. The company went public in 2017 and has grown through a combination of organic product development and strategic acquisition - most notably the $6.5 billion acquisition of Auth0 in 2021, which materially expanded its developer-centric customer identity capabilities.

Core Business Identity

Okta self-describes as "the leading independent identity partner." This descriptor is deliberate and strategically significant - the word "independent" is a direct competitive differentiator against Microsoft, which bundles identity management within its broader Azure/Microsoft 365 ecosystem. Okta's value proposition is technological neutrality: the ability to integrate with virtually any cloud, application, or infrastructure stack regardless of vendor affiliation.

The company's stated vision is to "free everyone to safely use any technology," with identity positioned as the foundational security layer for the modern enterprise. This framing aligns with the broader industry shift from perimeter-based network security to Zero Trust architectures, where identity becomes the primary control plane for access decisions.

Geographic Presence

- **Domestic (United States):** ~80% of revenue in FY2026
- **International:** ~20% of revenue in FY2026
- Employees: 6,366 total as of January 31, 2026
- ~56% U.S.-based
- ~44% international
- Sales organization is structured by geography, customer size, and in some cases by industry vertical

The 20% international revenue figure is both a current limitation and a forward-looking opportunity. Okta has explicitly identified international expansion as a core growth vector, particularly as cloud adoption accelerates in markets outside the United States.

II. DUAL-PLATFORM ARCHITECTURE: THE OKTA AND AUTH0 PLATFORMS

Okta's product architecture is organized around two distinct but complementary platforms, each targeting different buyer personas and use cases. This dual-platform structure is a critical differentiator and a source of competitive moat.

A. The Okta Platform - Workforce Identity & Enterprise Security

The Okta Platform serves as the central identity control plane for organizations managing internal users: employees, contractors, partners, and increasingly, non-human identities (NHIs) and AI agents. It is primarily consumed by IT and security leadership within enterprise organizations.

Core Functional Pillars:

1. **Adaptive Access and Authentication** - Continuous risk and policy evaluation using AI-driven threat signals to automate access decisions and remediation. Key products include:

- *Single Sign-On (SSO)* with Okta FastPass for passwordless authentication across all major operating systems
- *Adaptive Multi-Factor Authentication (MFA)* leveraging network-wide threat intelligence from thousands of connected organizations
- *API Access Management* for securing machine-to-machine and user-to-API interactions
- *Access Gateway* extending cloud-based identity management to on-premises and hybrid environments
- *Okta Device Access* extending identity security to the device login layer
- *Universal Directory* as the centralized cloud-based user profile repository

2. **Automated Governance and Lifecycle Management** - Automating the full identity lifecycle from onboarding to offboarding:

- *Lifecycle Management* for automated provisioning and deprovisioning
- *Okta Workflows* for no-code/low-code identity process automation
- *Okta Identity Governance (OIG)* for access requests, certifications, and compliance reporting

• *Cross App Access (XAA)* - a standards-based protocol for governing AI agent and app-to-app connections, currently in early access

3. **Unified Security Posture** - Proactive vulnerability identification:

• *Identity Threat Protection* with AI-driven continuous risk assessment and automated remediation

• *Identity Security Posture Management (ISPM)* for identifying and prioritizing identity security gaps including admin sprawl and MFA bypass

4. **Privileged Access Management (PAM):**

• *Advanced Server Access* for cloud infrastructure access management across AWS, GCP, and Azure

• *Okta Privileged Access* for unified governance of privileged resources and NHIs

5. **AI Agent Governance (Emerging):**

• *Okta for AI Agents* - currently in early access, providing discovery, registration, authentication, governance, and management of AI agents through a unified identity control plane

B. The Auth0 Platform - Developer-Centric Customer Identity

Auth0 is a developer-first platform enabling companies to embed secure, extensible identity management into customer- and citizen-facing applications. It is consumed primarily by application development teams rather than IT security leadership, representing a distinct buyer persona and go-to-market motion.

Core Functional Pillars:

1. **Developer Empowerment:** Comprehensive SDKs, APIs, and developer tools for rapid identity integration 2. **Universal Login:** Standards-based centralized login infrastructure with extensive customization 3. **Advanced Security:** Attack Protection Suite (bot detection, breached password protection, brute force mitigation), Adaptive MFA, and account takeover protection 4. **Agentic Application Development:** *Auth0 for AI Agents* - enabling developers to secure AI agent interactions, mitigating static credential sprawl and unauthorized data access 5. **Fine Grained Authorization (FGA):** Complex, relationship-based authorization models critical for AI agent interactions with enterprise data 6. **Extensibility:** Actions, Forms, Event Streams, and the Auth0 Marketplace for customized identity flows 7. **Machine-to-Machine Tokens:** Standards-based NHI authentication and authorization 8. **Private Cloud:** Dedicated cloud deployment option supporting multiple cloud providers

C. Cross-Platform AI Agent Initiative

The most strategically significant emerging product development is Okta's positioning around AI agent identity governance. Three interconnected offerings are being developed:

- **Okta for AI Agents** (Okta Platform, early access): Governance and visibility for AI agents
- **Auth0 for AI Agents** (Auth0 Platform): Developer tools for securing agentic applications
- **Cross App Access (XAA)**: An interoperability standard extending the Model Context Protocol (MCP) to enable AI agents to securely interact across third-party ecosystems

This positions Okta as a potential "unified, independent control plane for non-human identities and AI agents" - a market that does not yet exist at scale but could represent a significant long-term TAM expansion. The company is explicitly acknowledging that adoption is in early stages, which is appropriately cautious but also signals that this is a forward-looking investment thesis rather than a current revenue driver.

III. TECHNOLOGY INFRASTRUCTURE & SECURITY ARCHITECTURE

Cloud-Native Architecture

Okta's platform was built entirely in and for the cloud, with the following architectural characteristics:

- **Multi-tenant, encrypted, third-party validated** cloud architecture
- **Active-active-active availability zones** with cross-continental disaster recovery regions
- **Real-time database replication** and geo-distributed storage
- **Zero planned downtime**, including during maintenance windows
- **Synthetic transaction monitoring** for proactive issue detection at infrastructure, application, and third-party integration levels
- Horizontal and vertical scalability through geo-distributed cells

Security Certifications & Compliance

Okta maintains an extensive compliance portfolio critical for enterprise and government sales:

- **SOC 2 Type II Attestations**
- **CSA Star Level 2 Certification**
- **ISO/IEC 27001:2022, 27017:2015, 27018:2019**
- **FedRAMP Authorities to Operate** (multiple agency authorizations)
- **DoD Impact Level 4 compliance**
- **HIPAA Security Rule alignment**
- **FIPS 140-2 encryption support**

The FedRAMP and DoD certifications are particularly significant as they represent high barriers to entry that protect Okta's government customer base from competitive displacement.

Okta Integration Network

As of January 31, 2026, Okta maintains **over 7,000 integrations** within its Okta Integration Network, including with:

AWS, Atlassian, DocuSign, Google, Microsoft 365, NetSuite, Oracle, Palo Alto Networks, Proofpoint, Salesforce, SAP, ServiceNow, Slack, Splunk, VMware, Workday, Zendesk, and Zoom, among others.

This integration density creates a powerful network effect: each new integration increases the platform's value to existing and prospective customers, raising switching costs and deepening the competitive moat. Customers can also create proprietary integrations for on-premises and cloud applications.

Open Standards Leadership

Okta leads and contributes to several standards initiatives:

- **IPSIE (Interoperability Profile for Secure Identity in the Enterprise):** Standardizes risk signal sharing and session termination across the SaaS ecosystem

- **XAA (Cross App Access):** Shifts authorization decisions from individual applications to the identity provider

- **MCP Extension:** Extends the Model Context Protocol with XAA capabilities for AI agent governance

This standards leadership is strategically important - it positions Okta as a neutral arbiter in the identity ecosystem, reinforcing its independence narrative and creating de facto lock-in through protocol adoption.

IV. CUSTOMER BASE & MARKET POSITIONING

Customer Metrics

Metric	Value (as of January 31, 2026)
Total Customers	>20,000
Customers with ACV >$100,000	5,100
Integrations in Okta Integration Network	>7,000
Total Employees	6,366

The 5,100 customers with ACV >$100,000 represents a critical cohort - these large enterprise customers drive disproportionate revenue, have higher switching costs, and are more likely to expand their deployments across both platforms.

Customer Diversity

Customers span nearly all industry verticals, ranging from:

- Fortune 50 enterprises with hundreds of thousands of employees

- Small and medium-sized businesses

- Universities and nonprofits

- Government agencies (federal, state, local)

This diversification reduces concentration risk while the depth of penetration in regulated sectors (healthcare, financial services, government) provides revenue durability.

Land-and-Expand Model

Okta employs a deliberate land-and-expand strategy:

- Initial deployment in one use case (e.g., workforce identity)
- Expansion to additional use cases (e.g., customer identity via Auth0)
- Addition of new users as customer headcount grows
- Cross-sell of additional product offerings (IGA, PAM, ISPM, etc.)

This model creates a virtuous cycle: customer success drives expansion, expansion drives deeper integration, deeper integration raises switching costs, and higher switching costs improve retention and net revenue retention rates.

V. REVENUE MODEL & BUSINESS SEGMENTS

SaaS Subscription Model

Okta generates revenue primarily through **multi-year subscriptions** to its cloud-based offerings. This model provides:

- High revenue visibility and predictability
- Strong recurring revenue characteristics
- Natural expansion mechanics through user-based pricing

Revenue Segmentation

While the 10-K Business section does not provide explicit revenue breakdowns by product line, the following structural observations are relevant:

By Geography:

- United States: ~80% of revenue (FY2026)
- International: ~20% of revenue (FY2026)

By Use Case (Qualitative):

- **Workforce Identity (Okta Platform):** Enterprise IT and security deployments for employee/contractor/partner access management. This is the more mature, higher-ACV segment.
- **Customer Identity (Okta Platform + Auth0 Platform):** Developer-driven deployments for customer-facing applications. Auth0 is the primary vehicle here, with a developer-led, bottom-up sales motion.

By Customer Size:

- Large enterprise (>$100K ACV): 5,100 customers - primary revenue driver
- SMB and mid-market: Remainder of 20,000+ customer base

Revenue Growth Levers

1. **User expansion** within existing customer deployments 2. **Cross-sell** between Okta Platform and Auth0 Platform 3. **Up-sell** of premium products (IGA, PAM, ISPM, Identity Threat Protection) 4. **New logo acquisition** particularly in large enterprise and international markets 5. **NHI and AI agent management** as an emerging future revenue stream

VI. SALES & MARKETING STRATEGY

Go-to-Market Structure

Okta's sales organization underwent a significant restructuring at the start of FY2026 - a **go-to-market specialization** initiative that separated the sales force into two distinct motions:

1. **Okta Sellers:** Focus on IT and security buyer needs, including all workforce identity products and Okta Customer Identity 2. **Auth0 Sellers:** Focus on developer needs, including highly technical customer identity customizations and flexible development models

This specialization is strategically sound - the IT security buyer and the application developer have fundamentally different purchasing criteria, evaluation processes, and success metrics. Conflating these motions in a unified sales force creates friction and suboptimal conversion rates.

Direct Sales Channels

- **Field Sales:** Enterprise and large commercial accounts
- **Inside Sales:** Mid-market and SMB accounts
- **Self-Service:** Developer-led free trials and free plans for Auth0, with conversion paths to paid enterprise plans
- **Hunter-Farmer Model:** Deployed in certain regions/segments to separate new logo acquisition from account expansion

Sales engineers, security specialists, cloud architects, professional services, and technical resources support the direct sales force.

Indirect/Channel Sales

- **Cloud Marketplaces:** AWS Marketplace, Azure Marketplace, Google Cloud Marketplace
- **Resellers and VARs:** Traditional and Government VARs
- **System Integrators:** Global SIs for large enterprise deployments
- **Managed Service Providers:** For ongoing management of Okta deployments
- **Technology Partners:** Co-selling arrangements with leading cloud application providers

Okta Elevate Partner Program

A structured partner incentive program designed to motivate partners to deliver and manage Okta solutions, driving scale and specialized expertise in markets where Okta's direct sales force has limited reach.

Marketing Strategy

- **Customer-centric marketing:** Featuring customer success stories as primary marketing content
- **Data-driven approach:** Analytics-informed marketing efficacy measurement
- **Oktane Annual Conference:** Flagship customer conference featuring success stories, product announcements, and hands-on labs
- **Okta Community:** Online community platform for customer peer interaction and knowledge sharing
- **Developer ecosystem cultivation:** Targeting application developers as a distinct marketing segment for Auth0

VII. RESEARCH & DEVELOPMENT

R&D; Philosophy

Okta's R&D organization is responsible for design, architecture, creation, and quality assurance of both platforms. The company employs test automation and application monitoring to support high availability and minimize service disruptions.

Key R&D; Investment Areas

1. **AI Integration:** Development of Okta for AI Agents, Auth0 for AI Agents, and XAA protocol extension to MCP 2. **Identity Governance:** Continued enhancement of IGA capabilities 3. **Privileged Access Management:** Expansion of PAM product suite 4. **Identity Security Posture Management:** ISPM as a proactive security tool

5. **Non-Human Identity Management:** Infrastructure for managing NHIs at scale 6. **Large Language Model Integration:** Leveraging LLMs for threat detection and identity analytics

Strategic R&D; Priorities

The company has explicitly committed to "significant investments in research and development, hiring top technical talent and maintaining an agile organization." The recent development of AI agent governance products (Okta for AI Agents, Auth0 for AI Agents, XAA) demonstrates execution on this commitment.

The company also notes its intention to leverage its "unique data assets" - the intersection of millions of people, devices, applications, and infrastructure components - for differentiated analytics and predictive capabilities. While not currently monetized directly, this data asset represents a potential future revenue stream.

VIII. COMPETITIVE LANDSCAPE

Competitive Categories

Okta competes across multiple identity-adjacent categories:

Category	Representative Competitors
Authentication Providers	Microsoft (Entra ID), Ping Identity, ForgeRock
Identity Governance	SailPoint, Saviynt, IBM Security
MFA Providers	Duo Security (Cisco), RSA Security
Infrastructure-as-a-Service Providers	Microsoft Azure AD, AWS IAM, Google Cloud Identity
Customer Identity & Access Management	ForgeRock, Ping Identity, Transmit Security
In-house Development	Internal IT teams at large enterprises

Principal Competitor: Microsoft

Okta explicitly identifies **Microsoft as its principal competitor**. This is a critical competitive dynamic that warrants detailed analysis:

Microsoft's Advantages:

- Bundled identity capabilities within Microsoft 365 and Azure subscriptions (Entra ID)
- Significantly greater financial, technical, sales, and marketing resources
- Existing enterprise relationships and procurement leverage
- Ability to offer identity "for free" as part of broader enterprise agreements

Okta's Counter-Positioning:

- **Technological neutrality:** Okta works with any cloud, any application, any vendor - Microsoft's identity solutions are optimized for the Microsoft ecosystem
- **Independence:** No vendor lock-in to a single cloud provider
- **Depth of integrations:** 7,000+ integrations vs. Microsoft's more limited non-Microsoft ecosystem coverage
- **Identity-first focus:** Okta's entire engineering and product organization is dedicated to identity; for Microsoft, identity is one of hundreds of product areas
- **Multi-cloud and hybrid support:** Critical for enterprises with heterogeneous environments

Co-existence Dynamic

Notably, Okta acknowledges that it "can and often do co-exist alongside our competitors' products within our customer base." This is an important nuance - Okta is not always a rip-and-replace solution. Many enterprises run both Okta and Microsoft Entra ID, using Okta as the federation and orchestration layer across their entire technology stack, including Microsoft applications.

Competitive Advantages

1. **Platform independence and neutrality** 2. **Depth and breadth of pre-built integrations (7,000+)** 3. **Network effects from multi-tenant platform data** 4. **Developer ecosystem via Auth0** 5. **Open standards**

leadership (IPSIE, XAA, MCP) 6. **FedRAMP and government certifications** 7. **Identity-first product focus**

IX. GROWTH STRATEGY & STRATEGIC INITIATIVES

Near-Term Execution Priorities

1. **Deepen existing customer relationships** through cross-sell and up-sell 2. **Drive large customer growth** using land-and-expand model with focus on regulated verticals 3. **Leverage partner ecosystem** (SIs, MSPs, cloud marketplaces) for scale 4. **Expand international footprint** from 20% to a higher proportion of total revenue

Medium-Term Innovation Priorities

1. **AI agent identity governance** - Okta for AI Agents, Auth0 for AI Agents, XAA 2. **NHI management** at enterprise scale 3. **New product development** extending both platforms 4. **Analytics monetization** leveraging unique identity threat intelligence data

Long-Term Strategic Vision

1. **Unified control plane for human and non-human identities** - positioning Okta as the identity layer for the entire enterprise technology stack, including AI agents 2. **International expansion** as cloud adoption accelerates globally 3. **M&A and strategic investments** in adjacent identity and security technologies 4. **Developer ecosystem expansion** to capture every application builder as an Auth0 customer

M&A; Strategy

Okta explicitly states it will "evaluate opportunities to acquire or invest in emerging and adjacent technologies to complement our organic investments." Given the company's history (Auth0 acquisition in 2021), M&A remains a potential growth lever, particularly for:

- Privileged access management capabilities

- Identity governance enhancements
- AI/ML security analytics
- International market access

X. INTELLECTUAL PROPERTY

Patent Portfolio

Metric	Value (as of January 31, 2026)
U.S. Issued Patents	100
International Issued Patents	85
Patent Expiration Range	2030 - 2044

Trademark Portfolio

- **"Okta"** - registered in multiple jurisdictions worldwide
- **"Auth0"** - registered in multiple jurisdictions worldwide
- **"The World's Identity Company"** - registered in the United States
- **"Oktane"** - registered in the United States
- Various domain names including "okta" and "auth0" variations

IP Protection Strategy

Okta employs a multi-layered IP protection strategy:

- Patents covering product functionality

- Trademarks protecting brand identity
- Trade secrets for proprietary algorithms and data
- Contractual protections (NDAs, invention assignment agreements) with employees, consultants, and contractors
- Terms of use controlling access to proprietary technology

The patent portfolio covering aspects of the Okta Integration Network (patented technology for seamless application connectivity) is particularly strategically significant as it protects the integration moat.

XI. HUMAN CAPITAL

Workforce Metrics

Metric	Value
Total Employees	6,366
U.S.-based	~56% (~3,565)
International	~44% (~2,801)
Employee Engagement Survey Participation	86% (FY2026)

Culture & Values

Okta's four core values - "love our customers," "always secure and always on," "build and own it," and "drive what's next" - are explicitly linked to human capital strategy. The "build and own it" value is particularly relevant as it reflects the company's emphasis on employee ownership and accountability.

Compensation & Benefits

- Market-competitive base pay with short-term bonus and long-term equity incentives

- Employee Stock Purchase Plan (ESPP)
- 401(k) with company matching (U.S.)
- Comprehensive medical, dental, vision, life, and disability insurance
- Gender-neutral paid parental leave
- Flexible time off and volunteer time off
- Mental health and wellness support programs

Social Impact - Okta for Good

Okta for Good is the company's social impact arm, focused on building a "safely connected world." Key activities include:

- Discounted/donated platform access for nonprofits
- Employee giving and volunteering programs
- Philanthropic grantmaking via the Okta for Good Fund (donor-advised fund at Tides Foundation)

XII. RISK FACTORS & CHALLENGES

Competitive Risks

1. **Microsoft bundling:** The primary competitive threat is Microsoft's ability to offer identity management capabilities as part of existing enterprise agreements at marginal cost, making it difficult for Okta to justify standalone pricing for customers already invested in the Microsoft ecosystem.

2. **In-house development:** Large enterprises with significant engineering resources may choose to build proprietary identity solutions, particularly for customer identity use cases. Auth0 directly competes with this "build vs. buy" dynamic.

3. **Emerging competitors:** As the identity market grows, new entrants with AI-native architectures could disrupt existing players, including Okta.

Market & Execution Risks

1. **Sales cycle length:** Enterprise identity deployments involve complex procurement processes, security reviews, and multi-stakeholder approvals, creating long and unpredictable sales cycles.

2. **Customer concentration in government:** While government certifications (FedRAMP, DoD IL4) are a competitive advantage, they also create dependency on government spending priorities and procurement timelines.

3. **International expansion execution:** Growing from 20% to a higher international revenue mix requires significant investment in local sales, marketing, and support infrastructure.

4. **AI agent adoption timeline:** The NHI/AI agent identity opportunity is explicitly described as early-stage. If enterprise AI agent adoption is slower than anticipated, this growth vector may not materialize on the timeline the market expects.

5. **Cybersecurity incidents:** As an identity security company, Okta itself is a high-value target for cyberattacks. The company has experienced notable security incidents in prior years (the Lapsus$ breach in 2022 and the support system breach in 2023), which have impacted customer trust and required significant remediation investment.

6. **Revenue sensitivity to customer headcount:** Okta's user-based pricing model means that customer workforce reductions directly reduce Okta's revenue from those accounts - a risk in recessionary environments.

Regulatory Risks

1. **Data privacy regulations:** GDPR, CCPA, and emerging global privacy frameworks create compliance obligations that could increase operating costs.

2. **AI regulation:** Emerging regulatory frameworks around AI usage could impact Okta's AI agent governance products and the broader AI agent market.

XIII. DISTRIBUTION CHANNELS & PARTNER ECOSYSTEM

Direct Channels

- Field sales (enterprise)
- Inside sales (mid-market/SMB)
- Self-service/developer-led (Auth0 free trials and developer plans)

Indirect Channels

- **Cloud Marketplaces:** AWS, Azure, Google Cloud - increasingly important as enterprises consolidate procurement through cloud providers
- **System Integrators:** Global SIs (e.g., Accenture, Deloitte, PwC) for large enterprise implementations
- **Value-Added Resellers (VARs):** Including Government VARs for public sector
- **Managed Service Providers:** For ongoing managed identity services
- **Technology Partners:** Co-selling with cloud application providers

Partner Program

The **Okta Elevate Partner Program** provides structured incentives for partners to deliver and manage Okta solutions, creating a scalable channel that extends Okta's reach beyond its direct sales capacity.

XIV. INVESTMENT CONSIDERATIONS & ANALYTICAL OBSERVATIONS

Bull Case Thesis

1. **Secular tailwinds:** Zero Trust adoption, cloud migration, and AI agent proliferation all structurally increase demand for identity management 2. **Independence premium:** As multi-cloud becomes standard, Okta's vendor-neutral positioning becomes more valuable, not less 3. **AI agent opportunity:** If AI agent adoption accelerates, Okta is uniquely positioned as the governance layer for NHI and agentic identities - a potentially massive TAM expansion 4. **Network effects:** 7,000+ integrations and 20,000+ customers create compounding value that is difficult to replicate 5. **Recurring revenue model:** Multi-year SaaS subscriptions provide high visibility and predictability 6. **Land-and-expand:** The dual-platform architecture creates multiple expansion vectors within existing accounts

Bear Case Thesis

1. **Microsoft competition:** Entra ID bundling continues to pressure Okta's ability to win new logos and retain existing customers in Microsoft-heavy environments 2. **Valuation:** At $80.19, the stock reflects significant growth expectations that require sustained execution 3. **Security incident legacy:** Prior breaches have created reputational overhang that may slow enterprise sales cycles 4. **AI agent timing uncertainty:** The NHI/AI agent opportunity may be further out than the market anticipates 5. **International execution risk:** Growing from 20% international revenue requires significant investment with uncertain returns 6. **Margin pressure:** Continued R&D investment in AI capabilities and international expansion may delay profitability improvement

Key Metrics to Monitor

1. Net Revenue Retention Rate (NRR) - indicator of land-and-expand effectiveness 2. Customers with ACV >$100K - proxy for enterprise penetration 3. International revenue growth rate vs. domestic 4. Auth0 platform revenue contribution and growth 5. AI agent product adoption metrics (when disclosed) 6. Operating leverage progression 7. Competitive win/loss rates against Microsoft

XV. CONCLUSION

Okta occupies a structurally advantaged position in one of enterprise technology's most critical and fastest-growing segments. Its dual-platform architecture, 7,000+ integration network, government certifications, and emerging AI agent governance capabilities create a defensible competitive moat that is difficult to replicate quickly. The company's explicit positioning as the "independent" identity partner is both a strategic necessity and a genuine differentiator in a market where Microsoft's bundling creates constant pricing pressure.

The most compelling aspect of Okta's forward-looking narrative is its early positioning around AI agent identity governance. As enterprises deploy AI agents at scale, the identity and access management challenges for non-human entities will be fundamentally different from traditional human identity management - requiring

authentication, authorization, and governance at machine speed and scale. Okta's early access products (Okta for AI Agents, Auth0 for AI Agents, XAA) suggest the company is investing ahead of this curve.

The primary risk remains Microsoft. Okta must continue to demonstrate that its independence, integration depth, and identity-first focus deliver sufficient value to justify its standalone pricing against Microsoft's bundled offering. The company's FY2026 go-to-market specialization - separating Okta sellers (IT/security buyers) from Auth0 sellers (developers) - is a sound strategic response to the complexity of competing across multiple buyer personas simultaneously.

At $80.19, the stock reflects a market that has already discounted significant near-term execution risk (post-security incident recovery, Microsoft competition) while pricing in moderate long-term growth. The AI agent opportunity represents the asymmetric upside that could justify a more constructive position - but only if enterprise AI agent adoption accelerates on a timeline that benefits Okta's current investment cycle.

The investment committee should focus its diligence on three critical questions: 1. What is the current and projected NRR trajectory, and does it reflect stabilization or continued pressure from Microsoft competition? 2. What is the pace of enterprise AI agent adoption, and how quickly can Okta convert early access products into meaningful revenue? 3. Can Okta's international expansion generate sufficient returns to justify the investment required to grow from 20% to a higher international revenue mix?

This analysis is based solely on the Business section (Part I, Item 1) of Okta's FY2026 Annual Report on Form 10-K. Financial statement analysis, risk factor deep-dive, and MD&A review are covered in separate sections of the comprehensive investment memorandum.

Prepared for: Investment Review Committee **Classification:** Confidential - Internal Use Only **Current Stock Price:** $80.19 **Fiscal Year End:** January 31, 2026

RISK FACTORS

OKTA, INC. (OKTA) - RISK FACTOR ANALYSIS

Investment Review Committee Memorandum

Prepared by: Financial Analysis Division

EXECUTIVE SUMMARY

This memorandum presents a comprehensive analysis of the risk factors disclosed in Okta, Inc.'s most recent 10-K filing. Okta operates as a leading independent identity and access management ("IAM") platform provider, serving both workforce identity and customer identity use cases. The company's risk profile is substantial and multidimensional, spanning competitive, cybersecurity, regulatory, financial, and structural dimensions. The current stock price of $80.19 represents a significant discount from the 52-week high of $127.57, suggesting the market has already begun pricing in certain risk factors - most notably competitive pressure, cybersecurity incidents, and macroeconomic headwinds. This analysis identifies and prioritizes risks across micro and macro dimensions, with particular emphasis on risks that are material to investment thesis formation.

Overall Risk Assessment: ELEVATED - The combination of intensifying competition from Microsoft and other hyperscalers, a history of cybersecurity incidents that directly undermine the company's core value proposition, a dual-class governance structure that limits shareholder influence, and near-term convertible note obligations creates a complex and challenging risk environment.

SECTION I: BUSINESS AND INDUSTRY RISKS

1.1 Macroeconomic Sensitivity and Demand Compression

Risk Level: HIGH

Okta's revenue model is fundamentally dependent on enterprise IT spending, which is highly cyclical and discretionary. The filing explicitly acknowledges that adverse macroeconomic conditions - including geopolitical instability, trade policy disruptions, inflationary pressures, interest rate volatility, and financial market dislocations - have historically reduced demand for its solutions and may continue to do so.

The critical nuance here is the **asymmetric impact** on Okta relative to larger competitors. When enterprises face budget pressure, they tend to consolidate vendors and favor incumbents with broader product suites. Microsoft, Okta's principal competitor, benefits from this dynamic as enterprises already paying for Microsoft 365 or Azure Active Directory (now Entra ID) may opt to expand Microsoft's identity capabilities rather than maintain a separate Okta subscription. This creates a **ratchet effect** during downturns where Okta faces disproportionate customer attrition.

The filing also notes that prolonged economic slowdowns may result in customers requesting contract renegotiations on less favorable terms or outright defaults. Given that Okta's revenue is recognized ratably over subscription periods, the full impact of any demand compression would be **lagged but persistent** - a deterioration in new bookings today will suppress revenue for 12-24 months forward.

Investment Implication: The current macroeconomic environment, characterized by elevated interest rates, geopolitical uncertainty (particularly U.S.-China trade tensions and European instability), and government spending uncertainty, creates a headwind that is both real and difficult to quantify precisely. The company's exposure to public sector customers - who face budget pressures from workforce reduction policies and shifting governmental priorities - adds another layer of demand uncertainty.

1.2 Customer Retention and Net Revenue Retention Risk

Risk Level: HIGH - CRITICAL WATCH ITEM

Okta's business model is subscription-based, making customer retention the single most important operational metric. The filing candidly acknowledges that customer retention has "in the past and may in the future, decline or fluctuate" due to multiple factors, including pricing competitiveness, cybersecurity incidents, macroeconomic conditions, and competitive alternatives.

The disclosure that "some of our customers have elected not to renew their agreements with us" is a material admission. In a SaaS identity business, churn is particularly damaging because: (1) identity platforms are theoretically sticky due to deep integration with enterprise systems; (2) if customers are churning despite high switching costs, it signals either a fundamental product competitiveness issue or a trust deficit following cybersecurity incidents; and (3) the ratable revenue recognition model means churn impacts compound over multiple quarters.

The filing's reference to "negative sentiment stemming from cybersecurity incidents" as a driver of retention risk is particularly significant. Okta's core value proposition is security - it sells trust. When that trust is compromised, as it has been through multiple documented incidents, the retention risk is existential in nature, not merely operational.

Investment Implication: Net Revenue Retention (NRR) is the key metric to monitor. Any deterioration below 110% would be a significant negative signal. The combination of competitive pressure from Microsoft and cybersecurity-related reputational damage creates a dual threat to retention that is difficult to reverse quickly.

1.3 Competitive Landscape - The Microsoft Threat

Risk Level: CRITICAL

The filing explicitly names Microsoft as Okta's "principal competitor" - a rare and significant disclosure that underscores the severity of this competitive dynamic. This is not a standard competitive risk disclosure; it is an acknowledgment that the company faces an existential competitive threat from one of the world's most resource-rich technology companies.

Microsoft's competitive advantages in the identity space are formidable and structural:

- **Bundle Economics:** Microsoft can offer identity capabilities (Entra ID) as part of its broader Microsoft 365 and Azure ecosystem, effectively pricing identity at zero marginal cost for existing customers. This "zero or negative margin" bundling strategy is explicitly acknowledged in the filing.

- **Closed Platform Leverage:** Microsoft can design its ecosystem to favor its own identity solutions, creating friction for Okta integrations.

- **Scale of R&D:** Microsoft's research and development budget dwarfs Okta's, enabling faster AI integration, broader feature development, and more aggressive product roadmaps.

- **Existing Relationships:** Microsoft has deeply entrenched relationships with enterprise IT departments, reducing the sales friction for identity solution adoption.

Beyond Microsoft, Okta faces competition from authentication providers, identity governance providers, MFA providers, IaaS providers with native identity capabilities (AWS IAM, Google Cloud Identity), and in-house solutions developed by large enterprises. The filing also acknowledges the emerging threat from AI-native identity solutions, which could disrupt the current competitive landscape.

Investment Implication: The Microsoft threat is not a future risk - it is a present reality that is likely already suppressing Okta's win rates and contributing to pricing pressure. The stock's decline from $127.57 to $80.19 over the fiscal year partially reflects market recognition of this dynamic. The critical question for the investment thesis is whether Okta can maintain a defensible niche in the identity market, particularly in multi-cloud, multi-vendor enterprise environments where Microsoft's bundling advantage is less decisive.

1.4 Revenue Growth and Profitability Trajectory

Risk Level: HIGH

The filing acknowledges that prior revenue growth rates "may not be indicative of future growth or performance" - a standard but meaningful disclosure. More concerning is the explicit acknowledgment that operating expenses are expected to increase in future periods, creating a margin squeeze risk if revenue growth decelerates.

The February 2025 sales force reorganization - described as "further specializing our sales force to better align with our customers and evolving market demands" - represents a significant operational disruption. Sales force reorganizations typically result in 2-4 quarters of productivity disruption as territories are realigned, quotas are reset, and new personnel are onboarded. This creates near-term revenue risk that is difficult to model precisely.

The company's focus on larger enterprise customers introduces additional variability through longer and less predictable sales cycles. The filing explicitly acknowledges that "it is difficult to predict exactly when, or even if, we will make a sale" for large enterprise transactions, creating meaningful quarterly earnings volatility.

1.5 Third-Party Dependency and Channel Partner Risk

Risk Level: MODERATE-HIGH

Okta's go-to-market strategy relies heavily on channel partners, ISVs, and system integrators. This creates several risk vectors:

- **Competitive Conflict:** Some channel partners simultaneously sell Okta and competing solutions, creating misaligned incentives.
- **Acquisition Risk:** Competitors could acquire key channel partners, effectively removing distribution capacity from Okta's ecosystem.
- **Implementation Quality:** Unsuccessful customer implementations - driven by partner capability gaps - directly harm Okta's retention rates and reputation.
- **Developer Ecosystem:** The filing notes that Okta's network effects depend on third-party developers building on its APIs. Any reduction in developer engagement weakens the platform's competitive moat.

SECTION II: CYBERSECURITY AND TECHNOLOGY RISKS

2.1 Cybersecurity Incident History and Ongoing Vulnerability

Risk Level: CRITICAL - EXISTENTIAL THREAT TO BRAND

This is arguably the most significant risk in Okta's entire risk profile, and it deserves extended analysis. The filing acknowledges a pattern of cybersecurity incidents that is deeply troubling for a company whose core business is identity security:

- **January 2022:** Compromise of a third-party service provider by a threat actor, resulting in widespread publicity about Okta's security posture.

- **October 2023:** A threat actor gained unauthorized access to and stole information from inside Okta's customer support system, hosted by a third-party service provider.

- **Ongoing:** The filing acknowledges that "we have experienced an increase in cybersecurity attacks and have had to expend increasing amounts of human and financial capital to respond."

The paradox here is stark and damaging: Okta sells security, yet it has been repeatedly breached. This creates a **credibility deficit** that is extraordinarily difficult to overcome in enterprise sales cycles. When a CISO is evaluating identity vendors, Okta's breach history is a primary objection that competitors actively exploit.

The filing's acknowledgment that "our customers have in the past published public criticisms of our security practices in connection with security incidents" confirms that this reputational damage is real and externally visible. The disclosure that security measures "have not in the past been, and may not in the future be, sufficient to protect our internal networks and platforms against certain attacks" is a remarkable admission of ongoing vulnerability.

Structural Vulnerability Factors:

- As a provider of identity solutions that form part of customers' security software supply chain, Okta is a high-value target for nation-state actors and sophisticated criminal organizations.

- The increasing use of AI by threat actors to develop and enhance cyberattacks is expected to increase the frequency, severity, and volume of attacks against Okta specifically.

- Third-party service provider dependencies create attack vectors that Okta cannot fully control or monitor.

- The supply chain attack vector - where a compromise of an open-source library or framework used by Okta could introduce vulnerabilities - is particularly difficult to defend against.

Investment Implication: The cybersecurity risk is not merely operational - it is a direct threat to Okta's revenue model. Each incident increases customer churn risk, lengthens sales cycles for new customers, and provides ammunition for competitors. The filing's disclosure that cybersecurity insurance "may be insufficient to cover all liabilities" and that "any incidents may result in loss of, or increased costs of, our cybersecurity insurance" adds a financial dimension to this risk.

2.2 Infrastructure and Service Availability Risk

Risk Level: MODERATE-HIGH

Okta's platforms must be available 24/7, and the company has experienced disruptions, data loss, and outages in the past. The company's heavy reliance on AWS infrastructure creates a concentration risk - any AWS outage or service disruption directly impacts Okta's ability to serve customers.

The filing acknowledges that service level agreement (SLA) failures result in service credits, which directly reduce revenue. More significantly, extended outages could trigger customer termination rights and accelerate churn. The company's acknowledgment that "in some instances, we may not be able to identify the cause or causes of these performance problems immediately, and it could take months, or even years, for such problems to become pronounced enough for us to detect" is particularly concerning.

2.3 AI Technology Risks - Double-Edged Sword

Risk Level: MODERATE-HIGH AND EVOLVING

Okta faces AI-related risks from two directions simultaneously:

Offensive AI Risk (Threat Vector): The filing explicitly acknowledges that AI is being used by threat actors to develop, conduct, and enhance cyberattacks. This directly increases the sophistication and frequency of attacks against Okta's systems and customers.

Defensive/Product AI Risk (Regulatory and Execution): Okta is investing in AI capabilities for its own products, including generative AI features. This creates risks including:

- Regulatory uncertainty across jurisdictions (EU AI Act, emerging U.S. state legislation)
- Intellectual property risks related to AI training data and model outputs
- Reputational risk from AI-generated content that is inaccurate or misleading
- Ethical concerns that could generate public controversy
- Competitive risk if AI integration is slower or less effective than competitors

The EU Artificial Intelligence Act specifically creates compliance obligations that could increase costs and restrict certain AI applications. The patchwork of emerging AI regulations across jurisdictions creates compliance complexity that will require significant legal and engineering resources.

Investment Implication: AI is simultaneously Okta's greatest growth opportunity (AI-native identity management, non-human identity management for AI agents) and a significant risk vector. The company's ability to navigate this landscape will be a key determinant of its long-term competitive position.

SECTION III: DATA PRIVACY AND REGULATORY RISKS

3.1 Global Privacy Regulatory Complexity

Risk Level: HIGH

Okta operates in one of the most heavily regulated areas of enterprise software - identity and personal data management. The regulatory landscape is characterized by:

- **GDPR (EU):** Strict data protection requirements with significant enforcement penalties (up to 4% of global annual revenue)
- **U.S. State Privacy Laws:** A growing patchwork of state-level privacy regulations (California CPRA, Virginia CDPA, Colorado CPA, and others) that create conflicting compliance obligations
- **Sector-Specific Requirements:** HIPAA compliance for healthcare customers, FedRAMP for government customers, and various financial services regulations
- **International Variations:** Data localization requirements, cross-border transfer restrictions, and varying consent standards across jurisdictions

The filing's acknowledgment that these laws "may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another and may conflict with one another" captures the fundamental compliance challenge. Okta must simultaneously comply with dozens of overlapping and sometimes contradictory regulatory frameworks.

FedRAMP Dependency Risk: The filing specifically notes that some public sector customers contract with Okta based on its FedRAMP authorization. If this authorization were suspended or revoked - whether due to a security incident or compliance failure - it would immediately disqualify Okta from serving federal government customers, representing a significant revenue risk.

3.2 Intellectual Property Risks

Risk Level: MODERATE

Okta faces IP risks from multiple directions:

- **Infringement Claims:** Competitors with larger patent portfolios may assert infringement claims, limiting Okta's ability to counterclaim or cross-license.

- **Open Source Exposure:** Okta's use of open source software creates risks of license compliance failures, potential requirement to open-source proprietary code, and security vulnerabilities from open source components.

- **AI IP Uncertainty:** The intellectual property framework for AI-generated content and AI training data remains legally unsettled, creating exposure for Okta's AI development activities.

SECTION IV: FINANCIAL AND ACCOUNTING RISKS

4.1 Revenue Recognition Lag and Visibility Risk

Risk Level: MODERATE

Okta's ratable revenue recognition model creates a structural disconnect between business performance and reported financial results. A deterioration in new bookings will not be immediately visible in revenue - it will manifest over subsequent quarters as deferred revenue is recognized. This creates two distinct risks:

1. **Investor Surprise Risk:** Investors may not appreciate the deterioration in business momentum until it is reflected in revenue, at which point the stock reaction may be severe. 2. **Management Incentive Misalignment:** The lag between bookings and revenue recognition could create incentives to prioritize short-term bookings metrics over long-term customer quality.

The filing's acknowledgment that "a decrease in new subscriptions or renewals in a reporting period may not have an immediate impact on billings for that period" further complicates financial analysis, as billings - a commonly used leading indicator - may also lag underlying business trends.

4.2 Convertible Notes - Near-Term Liquidity Risk

Risk Level: HIGH - NEAR-TERM CATALYST

The 2026 Notes represent a significant near-term financial obligation. As of January 31, 2026, these notes are classified as a **current liability** due to their maturity on June 15, 2026 - approximately four months from the filing date. This creates several risks:

- **Cash Settlement Pressure:** If holders elect to convert and Okta cannot or does not elect to settle in stock, significant cash outflows will be required.

- **Dilution Risk:** If Okta settles conversions in stock, existing shareholders face dilution.

- **Refinancing Risk:** If Okta needs to refinance the notes, current market conditions and credit spreads may result in less favorable terms.

- **Capped Call Complexity:** The unwinding of capped call transactions in connection with note repurchases could create downward pressure on the stock price.

The filing notes that as of January 31, 2026, $921 million remained available under the $1 billion share repurchase program authorized in January 2026. The simultaneous existence of a large share repurchase program and a near-term convertible note maturity creates a capital allocation tension that management will need to navigate carefully.

Investment Implication: The 2026 Note maturity is a near-term event risk that could create stock price volatility in the coming months. Investors should monitor the company's approach to note settlement and any associated hedging activity.

4.3 Foreign Currency and International Expansion Risk

Risk Level: MODERATE

International revenue represented 20% of total revenue in fiscal 2026. The company does not currently engage in currency hedging, creating direct exposure to foreign exchange fluctuations. The filing acknowledges that geopolitical events, trade policy changes, and economic sanctions could amplify this exposure. As the company seeks to grow its international business, this exposure will increase.

4.4 Tax Risk - Transfer Pricing and International Complexity

Risk Level: MODERATE

As a multinational organization with operations across multiple jurisdictions, Okta faces transfer pricing risk, potential challenges to its intercompany arrangements, and exposure to changing tax laws. The OECD's global minimum tax framework (Pillar Two) and various digital services taxes could increase Okta's effective tax rate. The company's significant net operating loss carryforwards - subject to Section 382 limitations from past ownership changes - may be further restricted by future ownership changes, potentially increasing future tax liability.

SECTION V: GOVERNANCE AND STRUCTURAL RISKS

5.1 Dual-Class Share Structure - Governance Concentration

Risk Level: MODERATE-HIGH

Okta's dual-class structure (Class B shares with 10 votes per share vs. Class A shares with 1 vote per share) concentrates voting control with pre-IPO stockholders, including directors, executive officers, and their affiliates, who held 32% of voting power as of January 31, 2026. This structure:

- **Limits Shareholder Influence:** Public shareholders have limited ability to influence board composition, executive compensation, or major corporate transactions.
- **Reduces Takeover Premium:** The dual-class structure makes hostile takeovers effectively impossible, potentially suppressing the stock's acquisition premium.
- **Sunset Provision:** The Class B super-voting rights expire on April 12, 2027 (ten-year anniversary of IPO). This approaching sunset could create transition dynamics as voting power shifts.

The anti-takeover provisions in Okta's charter - including classified board, blank check preferred stock, and supermajority amendment requirements - further entrench existing management and reduce accountability to public shareholders.

5.2 Key Person Dependency

Risk Level: MODERATE

The filing acknowledges dependency on executive officers and key employees, with no employment agreements requiring continued service. The competitive talent market in the San Francisco Bay Area, combined with immigration policy uncertainty and potential restrictions on work visas, creates ongoing talent retention risk. The February 2025 sales force reorganization may have exacerbated retention challenges among sales personnel.

5.3 Stock Price Volatility

Risk Level: HIGH

The stock's 52-week range of $75.05 to $127.57 - a spread of approximately 70% - demonstrates extreme price volatility. This volatility is driven by multiple factors including earnings surprises, cybersecurity incident disclosures, competitive announcements, and broader technology sector sentiment. The filing acknowledges prior securities class action litigation following periods of market volatility, creating ongoing legal risk.

SECTION VI: SECTOR-SPECIFIC RISK ASSESSMENT

6.1 Identity Market Structural Dynamics

The identity and access management market is undergoing a fundamental structural shift driven by several forces that create both opportunity and risk for Okta:

Non-Human Identity (NHI) Proliferation: The explosion of AI agents, service accounts, and machine identities is creating a new and rapidly growing attack surface. While this represents a growth opportunity for Okta, it also increases the complexity of identity management and creates new security vulnerabilities that Okta must address.

Zero Trust Architecture Adoption: Enterprise adoption of zero trust security frameworks is a secular tailwind for identity solutions. However, this also attracts new competitors and increases customer expectations for integration and performance.

Hyperscaler Competition: AWS, Google Cloud, and Microsoft Azure are all investing heavily in native identity capabilities. As enterprises consolidate their cloud infrastructure, the risk of identity being bundled into cloud platform agreements increases.

AI-Driven Security Threats: The use of AI by threat actors to conduct more sophisticated attacks - including credential stuffing, phishing, and social engineering at scale - directly threatens the effectiveness of identity solutions and increases the burden on providers like Okta to continuously evolve their defensive capabilities.

6.2 Public Sector Exposure

Okta's public sector business faces specific risks related to:

- **Government Spending Uncertainty:** Changes in federal budget priorities, workforce reduction initiatives, and shifting policy priorities create demand uncertainty.
- **FedRAMP Compliance Burden:** Maintaining FedRAMP authorization requires ongoing investment and creates compliance risk.
- **Contract Termination Rights:** Government customers have statutory rights to terminate contracts for convenience, creating revenue volatility.
- **Audit and Investigation Risk:** As a government subcontractor, Okta is subject to audits that could result in penalties, contract termination, or debarment.

SECTION VII: RISK PRIORITIZATION MATRIX

Risk Category	Severity	Probability	Time Horizon	Priority
Microsoft Competitive Threat	Critical	High	Immediate	1
Cybersecurity Incident Recurrence	Critical	High	Ongoing	2
2026 Convertible Note Maturity	High	Certain	Near-term	3
Customer Retention Deterioration	High	Moderate-High	1-2 Years	4
Data Privacy Regulatory Exposure	High	Moderate	1-3 Years	5
AI Technology Disruption	High	Moderate	2-4 Years	6
Macroeconomic Demand Compression	High	Moderate	Ongoing	7
Sales Force Reorganization Disruption	Moderate-High	High	Near-term	8
Dual-Class Governance Risk	Moderate	Certain	Until Apr 2027	9
International Expansion Risk	Moderate	Moderate	2-5 Years	10

SECTION VIII: ANALYST OBSERVATIONS AND INVESTMENT CONSIDERATIONS

8.1 The Core Paradox

Okta's most fundamental risk is what we term the **"Security Provider Paradox"**: the company sells security and trust, yet has experienced multiple documented security breaches. This paradox is not merely reputational - it creates a structural competitive disadvantage in enterprise sales cycles where security posture is a primary evaluation criterion. Every future security incident, regardless of severity, will be amplified by this history.

8.2 The Microsoft Gravity Well

The competitive threat from Microsoft deserves special emphasis because it is structural, not cyclical. Microsoft's ability to bundle identity capabilities into existing enterprise agreements - at zero marginal cost - creates a pricing dynamic that Okta cannot match without fundamentally restructuring its business model. The question is not whether Microsoft will continue to gain share in identity, but whether Okta can maintain a defensible position in multi-cloud, multi-vendor environments where Microsoft's bundling advantage is less decisive.

8.3 Near-Term Catalysts to Monitor

1. **2026 Note Settlement (June 2026):** How Okta manages the $X principal amount of convertible notes maturing in June 2026 will be a significant near-term event. Stock settlement would be dilutive; cash settlement requires liquidity management. 2. **Sales Force Productivity Recovery:** The February 2025 sales force reorganization's impact on bookings and revenue growth will become clearer over the next 2-3 quarters. 3. **Net Revenue Retention Trend:** Any deterioration in NRR below 110% would be a significant negative signal. 4. **Cybersecurity Incident Disclosure:** Given the company's history, the probability of a future incident disclosure is non-trivial. The market's reaction to any future incident would likely be severe given the established pattern. 5. **AI Product Roadmap Execution:** Okta's ability to integrate AI capabilities into its identity platform - particularly for non-human identity management - will be a key competitive differentiator.

8.4 Valuation Context

At $80.19, the stock trades at a significant discount to its 52-week high of $127.57, suggesting the market has already begun pricing in several of the risks identified in this analysis. The critical question for the investment committee is whether the current price adequately compensates for the risk profile described above, or whether additional downside risk remains unpriced. The combination of competitive pressure, cybersecurity reputational damage, near-term convertible note obligations, and macroeconomic headwinds creates a risk profile that warrants careful position sizing and ongoing monitoring.

CONCLUSION

Okta's risk profile is complex, multidimensional, and in several dimensions, self-reinforcing. The cybersecurity incident history undermines the company's core value proposition; the Microsoft competitive threat creates structural pricing pressure; the dual-class governance structure limits shareholder recourse; and the near-term convertible note maturity creates financial pressure. These risks are partially offset by the secular growth in identity management demand, Okta's established customer base, and its position in multi-cloud enterprise environments.

The Investment Review Committee should weigh these risks carefully against the company's growth prospects, competitive positioning in non-Microsoft environments, and the potential for AI-driven product innovation to create new competitive differentiation. A position in Okta, if taken, should be sized conservatively given the elevated risk profile and should be subject to specific monitoring triggers - particularly around cybersecurity incident disclosures, NRR trends, and the 2026 note settlement.

This analysis is based solely on the risk factors disclosed in Okta's most recent 10-K filing and is intended for internal investment review purposes only. It does not constitute investment advice and should be considered alongside fundamental financial analysis, competitive intelligence, and broader market assessment.

MANAGEMENT DISCUSSION & ANALYSIS

<management_discussion>

Management Discussion

<overall_summary>

Overview of the Company's Business, Strategy, and Recent Developments

Okta, Inc. ("OKTA") is the leading independent identity partner operating at the intersection of cybersecurity, cloud infrastructure, and enterprise software. The company's dual-platform architecture - the Okta Platform (enterprise-focused) and the Auth0 Platform (developer-focused) - serves as the foundational identity layer for thousands of organizations globally, spanning Fortune 500 enterprises, government agencies, universities, and small-to-medium businesses. As of January 31, 2026, Okta maintained over 7,000 integrations within its Okta Integration Network, cementing its position as the de facto identity ecosystem orchestrator. The company generates revenue almost exclusively through a SaaS subscription model (~98% of total revenue), providing high revenue predictability and strong recurring cash flow characteristics. Subscription fees are based on the number of users and solutions deployed, invoiced annually in advance, creating a favorable working capital dynamic through substantial deferred revenue balances. A notable strategic evolution is Okta's expansion into non-human identity ("NHI") management and AI agent identity governance - a forward-looking positioning that anticipates the proliferation of autonomous AI systems requiring authenticated, governed access. The company also completed the acquisition of Axiom Security Ltd. in September 2025 for $54 million, bolstering its privileged access management ("PAM") capabilities. Revenue for fiscal 2026 reached $2,919 million, representing 12% year-over-year growth, while the company achieved net income of $235 million, a dramatic improvement from net income of $28 million in fiscal 2025 and a net loss of $355 million in fiscal 2024. The trajectory from deep losses to meaningful profitability represents a fundamental shift in the company's financial profile.

Key Points Highlighted by Management

Management's narrative centers on four primary themes: (1) operational efficiency and margin expansion, (2) enterprise customer deepening, (3) platform evolution toward AI and NHI identity, and (4) disciplined capital allocation. On efficiency, operating expenses as a percentage of revenue declined materially across all categories - R&D fell from 25% to 22%, sales and marketing from 37% to 35%, and G&A from 17% to 15% of revenue. This operating leverage translated into an operating income of $149 million (5% margin) versus an operating loss of $74 million (-3% margin) in the prior year - a 800 basis point swing in operating margin. Management explicitly acknowledges the cybersecurity incidents of 2022 and 2023 as ongoing reputational and financial risks, while noting that their impact on financial results, though difficult to quantify precisely, continues to be monitored. Macroeconomic headwinds - including tariffs, inflation, interest rate volatility, and geopolitical uncertainty - are cited as factors contributing to longer sales cycles and moderating net retention rates. The initiation of a $1 billion share repurchase program signals management's confidence in the company's financial position and commitment to returning capital to shareholders. The shift of professional services engagements to the partner ecosystem (beginning fiscal 2027) reflects a strategic decision to improve overall margin quality and scale through a capital-light model.

Performance Summary

Okta's fiscal 2026 performance represents a compelling inflection story. Total revenue of $2,919 million grew 12% year-over-year, decelerating from 15% in fiscal 2025 but demonstrating resilience in a challenging macroeconomic environment. The enterprise segment continues to be the primary growth engine, with customers having ACV above $100,000 growing from 4,800 to 5,100 - a 6.25% increase - reflecting continued penetration of large enterprise accounts. The Dollar-Based Net Retention Rate of 106% (down from 107% in fiscal 2025 and 111% in fiscal 2024) indicates healthy but moderating expansion within the existing customer base, primarily attributable to macroeconomic-driven budget constraints rather than competitive displacement. Gross margin improved to 77% from 76%, with subscription gross margin reaching 80% (up from 79%). Operating cash flow surged to $884 million from $750 million in fiscal 2025, representing an 18% increase and demonstrating the powerful cash generation characteristics of the subscription model at scale. RPO grew to $4,827 million (up 15% from $4,215 million), and current RPO reached $2,513 million (up 12%), providing strong forward revenue visibility. The company's accumulated deficit stands at $2,567 million, a legacy of its investment-heavy growth phase, but the trajectory toward sustained profitability is now clearly established.

Detailed Results of Operations

Revenue: Total revenue grew $309 million (+12%) to $2,919 million. Subscription revenue increased $299 million (+12%) to $2,855 million, driven by user expansion within existing accounts and new customer additions. Professional services revenue increased $10 million (+18%) to $64 million, though management has signaled this line will decline in fiscal 2027 as engagements shift to the partner ecosystem.

Cost of Revenue & Gross Margin: Total cost of revenue increased $43 million (+7%) to $661 million, growing at roughly half the rate of revenue - a positive efficiency signal. Cost of subscription revenue rose $29 million (+5%) driven by labor (+$20M), hosting (+$15M), and software (+$9M), partially offset by lower consulting (-$10M) and stock-based compensation (-$8M). Subscription gross margin improved 100 bps to 80%. Professional services gross margin remained deeply negative at -29%, consistent with prior year, though this segment is being strategically de-emphasized.

Operating Expenses: Total operating expenses of $2,109 million increased only $43 million (+2%) despite 12% revenue growth, demonstrating significant operating leverage. R&D was essentially flat at $639 million (-$3M, -1%), declining as a percentage of revenue from 25% to 22%. Sales & marketing grew $53 million (+5%) to $1,018 million, driven by labor (+$23M), marketing (+$12M), and T&E (+$8M), but declined as a percentage of revenue from 37% to 35%. G&A was flat at $448 million, declining from 17% to 15% of revenue. Restructuring charges declined sharply to $4 million from $11 million, indicating the restructuring cycle is largely complete.

Stock-Based Compensation: Total SBC declined to $544 million from $565 million in fiscal 2025 and $684 million in fiscal 2024, reflecting ongoing discipline. SBC as a percentage of revenue is declining but remains elevated at approximately 18.6% of revenue - a key dilution consideration for investors.

Operating Income: Operating income of $149 million (5% margin) versus operating loss of $74 million (-3% margin) - a $223 million improvement.

Interest & Other: Interest and other, net declined to $106 million from $120 million, primarily due to the absence of debt extinguishment gains ($0 vs. $19M in fiscal 2025), partially offset by higher interest income ($110M vs. $106M). The company holds a substantial investment portfolio generating meaningful interest income.

Net Income: Net income of $235 million ($0.235B) versus $28 million in fiscal 2025 and a loss of $355 million in fiscal 2024. Income tax expense was modest at $20 million, benefiting from the "One Big Beautiful Bill Act" enacted July 4, 2025, which provides for immediate expensing of domestic R&D expenditures and 100% bonus depreciation.

Financial Condition

Okta's balance sheet reflects a company in strong financial health with significant liquidity. Cash, cash equivalents, and short-term investments totaled $2,553 million as of January 31, 2026. The company's primary liability of note is the 2026 Convertible Senior Notes with $350 million outstanding principal, classified as current due to maturity on June 15, 2026. Management has explicitly stated the intention to settle this obligation in cash, which is well within the company's liquidity capacity. Deferred revenue of $1,905 million (of which $1,875 million is current) represents a significant liability but is operationally favorable - it reflects cash already collected that will convert to recognized revenue over the next 12 months. The accumulated deficit of $2,567 million is a legacy metric from the company's high-investment growth phase and is declining as profitability improves. Total contractual obligations of $933 million ($693 million short-term) are manageable relative to the liquidity position. The company maintains a full valuation allowance on U.S. deferred tax assets, though management has signaled a potential release in the foreseeable future if positive evidence continues to accumulate - an event that would result in a significant non-cash benefit to the income statement.

Liquidity and Capital Resources

Okta's liquidity position is robust and improving. Operating cash flow of $884 million in fiscal 2026 (up from $750 million in fiscal 2025 and $512 million in fiscal 2024) demonstrates the powerful cash conversion characteristics of the business model. The company's primary source of operating cash is advance collections from customers under annual subscription contracts, creating a favorable working capital dynamic. Investing activities generated $271 million in fiscal 2026 (versus cash used of $314 million in fiscal 2025), primarily driven by net maturities of available-for-sale securities. Financing activities consumed $720 million (up from $359 million in fiscal 2025), reflecting: (1) $510 million settlement of the 2025 Notes at maturity, (2) $192 million in taxes paid on net share settlement of equity awards, (3) $79 million in share repurchases under the new $1 billion buyback program, and (4) other financing activities. The $1 billion share repurchase program, of which ~$921 million remains authorized, provides a meaningful capital return mechanism. Management expects

interest income to decline in fiscal 2027 as cash is deployed toward share repurchases, the 2026 Notes settlement, and amid a changing interest rate environment. The company's material cash requirements include $350 million for the 2026 Notes principal, $36 million in short-term operating lease obligations, and $306 million in short-term purchase obligations (primarily data center hosting), totaling $693 million in near-term obligations - comfortably covered by the $2,553 million liquidity position.

Forward-Looking Comments

Management's forward-looking commentary reflects cautious optimism balanced against acknowledged headwinds. On revenue, the company expects professional services revenue to decline in fiscal 2027 as engagements shift to the partner ecosystem - a margin-accretive strategic decision. Sales and marketing expenses are expected to continue declining as a percentage of revenue as scale benefits materialize. G&A is similarly expected to decline as a percentage of revenue. Interest income is expected to decrease in fiscal 2027 due to cash deployment for share repurchases and the 2026 Notes settlement. The potential release of the U.S. valuation allowance on deferred tax assets represents a significant potential non-cash income statement benefit, though timing remains uncertain. The company's expansion into AI agent identity governance and NHI management represents a significant long-term growth opportunity, positioning Okta at the center of enterprise AI deployment infrastructure. The "One Big Beautiful Bill Act" is expected to provide ongoing tax benefits through immediate R&D expensing, reducing future cash tax payments. Management acknowledges that longer sales cycles, macroeconomic uncertainty, and the lingering reputational effects of past cybersecurity incidents represent near-term headwinds to RPO, billings, and revenue growth. The company believes existing liquidity is sufficient to meet both short-term and long-term capital needs, with potential for additional M&A activity (as evidenced by the Axiom acquisition) and continued share repurchases.

Segment Information

Okta operates as a single reportable segment. The company does not break out financial results by product line, geography, or customer type in its segment reporting. However, within the MD&A, management provides meaningful color on the two primary revenue streams:

Revenue Stream	FY2026	FY2025	Growth	Gross Margin FY2026	Gross Margin FY2025
Subscription	$2,855M	$2,556M	+12%	80%	79%
Professional Services	$64M	$54M	+18%	-29%	-29%
Total	**$2,919M**	**$2,610M**	**+12%**	**77%**	**76%**

The subscription segment is the clear value driver, with improving margins and strong growth. Professional services, while growing in fiscal 2026, is intentionally being de-emphasized in favor of partner-led delivery - a strategically sound decision that should improve blended gross margins over time.

Summary of Profitability Trajectory

Metric	FY2024	FY2025	FY2026
Total Revenue	$2,263M	$2,610M	$2,919M
Revenue Growth	-	15%	12%
Gross Margin	74%	76%	77%
Operating Income (Loss)	($516M)	($74M)	$149M
Operating Margin	-23%	-3%	5%
Net Income (Loss)	($355M)	$28M	$235M
Operating Cash Flow	$512M	$750M	$884M

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Shareholder Structure and Dilution

Convertible Senior Notes - Dilution and Capital Structure Considerations:

Okta's capital structure includes the 2026 Convertible Senior Notes with $350 million outstanding principal, carrying a fixed interest rate of 0.375% per annum, maturing June 15, 2026. Management has explicitly stated the intent to settle the principal in cash, which eliminates the dilution risk from conversion. The associated 2026 Capped Calls were entered into to mitigate dilution risk if conversion were to occur, but with cash settlement intended, these instruments serve primarily as a hedge against stock price appreciation above the cap price. The 2025 Notes ($510 million principal) matured on September 1, 2025 and were settled in full in cash, with the associated capped calls expiring unexercised - confirming management's pattern of cash settlement preference.

Stock-Based Compensation - Ongoing Dilution Pressure:

SBC remains the primary dilution mechanism. Total SBC of $544 million in fiscal 2026 represents approximately 18.6% of total revenue - elevated relative to mature SaaS peers but declining from $565 million (21.7% of revenue) in fiscal 2025 and $684 million (30.2% of revenue) in fiscal 2024. The trend is clearly

improving but remains a meaningful dilution consideration. The company manages dilution through net share settlement of equity awards (using cash to cover employee tax withholding obligations), which consumed $192 million in fiscal 2026 and $148 million in fiscal 2025.

Share Repurchase Program:

The $1 billion share repurchase program authorized in January 2026 is a meaningful offset to SBC dilution. During fiscal 2026, the company repurchased 875,150 shares for $79 million (average price ~$90.27/share, above the current price of $80.19). With ~$921 million remaining under the authorization, the buyback program provides both dilution mitigation and a capital return mechanism. However, the pace of repurchases will be constrained by the upcoming $350 million 2026 Notes settlement and the desire to maintain adequate liquidity.

Dilution Risk Assessment: At the current stock price of $80.19, the dilution risk from the 2026 Notes (cash-settled) is minimal. The primary dilution risk remains SBC, which, while declining, continues to represent a significant annual equity grant program. Net of the buyback program, the company appears to be managing toward dilution neutrality over time.

Strategic Initiatives and Market Entry

1. AI Agent Identity Governance: The most significant strategic initiative is Okta's expansion into AI agent identity management. As enterprises deploy autonomous AI agents that interact with systems, APIs, and data, these agents require authenticated, governed access - precisely Okta's core competency. Management references "new product offerings currently in development and early access" for AI agent identity, positioning Okta at the center of what could be a massive new TAM expansion. This is not merely a feature addition; it represents a fundamental platform extension that could drive the next wave of user/seat growth as AI agent proliferation accelerates.

2. Non-Human Identity (NHI) Management: Complementary to AI agent identity, NHI management addresses the governance of machine identities (service accounts, API keys, certificates, etc.) - a historically underserved and rapidly growing attack surface. The acquisition of Axiom Security (PAM capabilities, $54M, September 2025) directly supports this initiative, adding privileged access management to the Okta Platform's capabilities.

3. Partner Ecosystem Shift (Professional Services): The deliberate shift of professional services engagements to the partner ecosystem (effective fiscal 2027) is a strategically sound capital allocation decision. By offloading low-margin (-29% gross margin) professional services to partners, Okta improves blended gross margins, scales implementation capacity without proportional cost increases, and deepens partner relationships that drive subscription revenue. This mirrors the playbook of mature SaaS leaders like Salesforce and ServiceNow.

4. Enterprise Deepening: The continued growth in $100K+ ACV customers (5,100 vs. 4,800) reflects successful enterprise penetration. Larger enterprises tend to deploy Okta in phases - starting with a limited

deployment and expanding over time - creating a natural land-and-expand dynamic that supports long-term revenue growth even in periods of slower new customer acquisition.

5. International Expansion: While not explicitly detailed in the MD&A, the company's exposure to foreign currency exchange rates and income in "profitable foreign jurisdictions" suggests meaningful international operations. FX tailwinds of $14 million on cash in fiscal 2026 (versus a $4 million headwind in fiscal 2025) reflect the international dimension of the business.

6. Okta Integration Network (OIN): With over 7,000 integrations, the OIN creates significant switching costs and network effects. Each new integration increases the value proposition for existing customers and reduces the likelihood of churn - a powerful competitive moat that compounds over time.

Macroeconomic Positioning

Interest Rate Environment: Okta benefits from elevated interest rates through its substantial investment portfolio ($2,553M in cash and investments), generating $110 million in interest income in fiscal 2026. Management has flagged that interest income is expected to decline in fiscal 2027 as cash is deployed toward share repurchases and the 2026 Notes settlement, and as interest rates potentially decline. This creates a modest headwind to non-operating income.

Inflation: Inflation impacts Okta primarily through labor costs (the largest cost component) and third-party hosting fees. Labor cost increases of $15-23 million across various expense categories in fiscal 2026 reflect wage inflation, though the company has managed these increases through efficiency improvements that have kept overall expense growth well below revenue growth. Third-party hosting cost increases ($15M in cost of subscription) reflect both volume growth and inflationary pressures on cloud infrastructure pricing.

Tariffs and Trade Policy: Management explicitly cites tariffs and increasing trade protectionism as potential headwinds. For a software company, the direct impact of tariffs is limited, but indirect effects - including reduced customer capital expenditure budgets, slower enterprise IT spending, and macroeconomic uncertainty - can extend sales cycles and dampen net retention rates. The 100 bps decline in Dollar-Based Net Retention Rate (from 107% to 106%) is partially attributable to these macroeconomic pressures.

Banking Sector Uncertainty: Management acknowledges ongoing monitoring of banking sector stability and has implemented risk mitigation measures including distributing cash across large financial institutions and maintaining strict investment policy restrictions on credit quality, liquidity, and diversification. The investment portfolio is concentrated in U.S. treasury securities, money market funds, corporate debt securities, and certificates of deposit - a conservative, high-quality allocation.

Sales Cycle Elongation: Perhaps the most direct macroeconomic impact on Okta's business is the elongation of enterprise sales cycles, which management explicitly acknowledges as a near-term headwind for cash flow, RPO, billings growth, and potentially future revenue growth. This is a common theme across enterprise

software companies in the current environment and reflects enterprise budget scrutiny rather than competitive displacement.

FX Impact: Foreign currency fluctuations represent a meaningful consideration given Okta's international operations. In fiscal 2026, FX changes provided a $14 million tailwind to cash balances (versus a $4 million headwind in fiscal 2025), suggesting a favorable USD weakening dynamic. RPO is also noted as subject to FX fluctuations, which can create noise in period-to-period comparisons.

External Risks and Industry Comparisons

Cybersecurity Incident Legacy: The October 2023 cybersecurity incident (unauthorized access to third-party customer support system) and the January 2022 incident (third-party service provider breach) represent the most significant company-specific external risk. Management acknowledges these incidents "harmed our reputation and customer relations and adversely impacted our financial results" and that future financial performance may continue to be adversely affected. The identity security sector demands an exceptionally high standard of trust - a cybersecurity breach at an identity provider is uniquely damaging because it undermines the core value proposition. The recovery in financial metrics (revenue growth, customer additions, RPO growth) suggests the company has largely stabilized, but the reputational overhang may continue to affect competitive positioning in head-to-head sales situations.

Competitive Landscape: Okta operates in a highly competitive identity and access management (IAM) market, facing competition from:

- **Microsoft** (Azure Active Directory/Entra ID): The most formidable competitor, with the ability to bundle identity capabilities with broader Microsoft 365 and Azure ecosystems at low or no incremental cost to enterprise customers.
- **CyberArk**: Focused on privileged access management (PAM), now a direct competitor following Okta's Axiom acquisition.
- **Ping Identity, ForgeRock** (now combined under Thales): Enterprise IAM competitors.
- **Auth0 competitors** (pre-acquisition): Now integrated into Okta's developer platform.
- **Emerging AI-native identity players**: A nascent but growing threat as AI-native startups attempt to build identity infrastructure purpose-built for AI agent environments.

Okta's competitive advantage rests on its independence (not tied to any single cloud vendor), breadth of integrations (7,000+), and the network effects of the OIN. The Microsoft threat is the most significant - enterprise customers already paying for Microsoft licenses may find Entra ID "good enough" for basic use cases, pressuring Okta to demonstrate superior functionality and ROI for complex, multi-cloud environments.

Technology Disruption: The AI transformation of enterprise software represents both an opportunity and a risk for Okta. As AI agents proliferate, identity governance becomes more complex and critical - a tailwind for Okta's platform. However, AI-native competitors could emerge with purpose-built solutions that challenge Okta's existing architecture. Management's early investment in AI agent identity capabilities suggests awareness of this risk.

Regulatory Environment: Identity and access management is increasingly subject to regulatory requirements (GDPR, CCPA, HIPAA, FedRAMP, etc.), which generally favor established, compliant vendors like Okta over newer entrants. Government agency customers (a noted customer segment) require FedRAMP authorization, creating a meaningful barrier to entry for competitors.

Supply Chain: As a software company, Okta's primary "supply chain" risk is third-party cloud infrastructure (AWS, Azure, GCP). The $15 million increase in third-party hosting costs in fiscal 2026 reflects both volume growth and pricing dynamics. Concentration risk in cloud infrastructure providers is a standard SaaS industry risk, mitigated by Okta's multi-cloud architecture.

Performance vs. Peers

Comparing Okta's fiscal 2026 performance against relevant SaaS peers provides important context:

Metric	Okta FY2026	SaaS Peer Benchmark
Revenue Growth	12%	Varies: 10-20% for mature SaaS
Subscription Gross Margin	80%	75-85% typical for SaaS
Total Gross Margin	77%	70-80% typical
Operating Margin	5%	Varies widely; many peers at 15-25%
Operating Cash Flow Margin	~30%	20-35% for mature SaaS
Dollar-Based NRR	106%	105-120% for leading SaaS
SBC as % of Revenue	~18.6%	10-20% for growth-stage SaaS

Revenue Growth: At 12%, Okta is growing at the lower end of high-quality SaaS peers, reflecting both the macroeconomic environment and the post-incident recovery dynamic. Peers like CrowdStrike (~25%+ growth) and Palo Alto Networks (~14% growth) are outpacing Okta, though these companies operate in adjacent cybersecurity markets with different growth profiles.

Gross Margin: Subscription gross margin of 80% is competitive and improving. This compares favorably to the broader SaaS industry average and reflects Okta's efficient cloud infrastructure management.

Operating Margin: The 5% operating margin, while a significant improvement, lags mature SaaS peers that have achieved 15-25% operating margins. However, the trajectory (from -23% in FY2024 to -3% in FY2025 to +5% in FY2026) is compelling and suggests continued margin expansion is achievable.

Net Retention Rate: A 106% NRR, while healthy in absolute terms, has been declining (from 111% in FY2024) and lags best-in-class SaaS companies that maintain 115-130% NRR. This suggests that while Okta is retaining customers effectively, the expansion motion is moderating - a key metric to monitor.

Operating Cash Flow: The $884 million operating cash flow (approximately 30% of revenue) is strong and compares favorably to peers, reflecting the favorable working capital dynamics of the subscription model.

Overall Assessment: Okta is performing in line with or slightly below top-tier SaaS peers on growth metrics, but is demonstrating superior improvement in profitability and cash generation. The company appears to be in a transitional phase - moving from a high-growth, high-investment mode to a more balanced growth-and-profitability profile. For a company of Okta's scale and market position, the current trajectory is encouraging, though the deceleration in NRR and revenue growth warrants continued monitoring.

Segment Information

Okta operates as a **single reportable segment**, which limits the granularity of financial analysis available from the MD&A. However, the following sub-segment analysis can be constructed from disclosed information:

Revenue Breakdown:

Segment	FY2026	FY2025	FY2024	YoY Growth (FY26)
Subscription	$2,855M	$2,556M	$2,205M	+12%
Professional Services	$64M	$54M	$58M	+18%
Total	**$2,919M**	**$2,610M**	**$2,263M**	**+12%**

Gross Margin by Revenue Stream:

Segment	FY2026 GM	FY2025 GM	FY2024 GM
Subscription	80%	79%	77%
Professional Services	-29%	-29%	-36%
Total	**77%**	**76%**	**74%**

Key Observations: 1. Subscription gross margin has improved 300 bps over three years (77% → 79% → 80%), reflecting scale benefits and infrastructure efficiency improvements. 2. Professional services gross margin, while deeply negative, has improved significantly from -36% in FY2024 to -29% in FY2025/FY2026. The strategic decision to shift this business to partners in FY2027 will eliminate this margin drag. 3. The blended gross margin improvement from 74% to 77% over three years is meaningful and suggests continued expansion toward the 80%+ range as professional services decline and subscription scale benefits continue.

Cost Structure Analysis:

Cost Category	FY2026	FY2025	% of Revenue FY2026	% of Revenue FY2025
Cost of Subscription	$578M	$549M	20%	21%
Cost of Prof. Services	$83M	$69M	3%	3%
R&D	$639M	$642M	22%	25%
Sales & Marketing	$1,018M	$965M	35%	37%
G&A	$448M	$448M	15%	17%
Restructuring	$4M	$11M	0%	0%
Total OpEx	**$2,109M**	**$2,066M**	**72%**	**79%**

The 700 bps improvement in total operating expense ratio (from 79% to 72% of revenue) is the primary driver of the operating margin improvement and reflects genuine operational leverage rather than one-time items.

Geographic Considerations: While Okta does not provide geographic segment breakdowns in the MD&A, references to "profitable foreign jurisdictions" for income tax purposes and FX impacts suggest meaningful international revenue. The $14 million FX tailwind on cash in FY2026 and the company's global customer base (including government agencies and large multinationals) imply international revenue is a growing component of the business.

Platform Considerations (Okta vs. Auth0): The MD&A does not provide separate financial metrics for the Okta Platform versus the Auth0 Platform. Both platforms are included within the subscription revenue line. The Auth0 platform (acquired in 2021 for ~$6.5 billion) serves the developer/customer identity use case, while the Okta Platform serves the enterprise workforce identity use case. The integration of these two platforms and the cross-sell opportunity between enterprise IT buyers and developer teams represents a significant strategic asset that is not fully visible in the reported financials.

Debt Structure and Convertible Notes Analysis

2026 Convertible Senior Notes:

- **Outstanding Principal:** $350 million (as of January 31, 2026)
- **Interest Rate:** 0.375% fixed, payable semi-annually
- **Maturity:** June 15, 2026 (classified as current liability)
- **Settlement Intent:** Cash settlement of principal
- **Associated Capped Calls:** In place to mitigate dilution risk if conversion occurs
- **Annual Interest Expense:** Approximately $1.3 million (de minimis)

2025 Convertible Senior Notes (Retired):

- **Original Principal:** $1,150 million (issued June 2020)
- **Settled:** September 1, 2025 - $510 million outstanding principal settled in cash
- **Capped Calls:** Expired unexercised upon maturity

Debt Extinguishment History:

- FY2024: $106 million gain on early extinguishment (significant repurchases at discount)
- FY2025: $19 million gain on early extinguishment
- FY2026: $0 (no early extinguishment activity)

The declining gains on debt extinguishment reflect the reduced outstanding balance of convertible notes. The company has been systematically reducing its convertible note obligations, moving toward a debt-free balance sheet post-June 2026.

Post-2026 Notes Maturity Capital Structure: Following the June 2026 settlement of the 2026 Notes ($350 million), Okta will have effectively no financial debt, creating a clean balance sheet. With $2,553 million in cash/investments and $884 million in annual operating cash flow, the company will have substantial financial flexibility for M&A, share repurchases, or organic investment.

Leverage Assessment: Current net cash position (cash/investments minus debt): $2,553M - $350M = $2,203M net cash. This represents a fortress balance sheet with zero leverage risk. The company's financial obligations are entirely manageable, and the upcoming 2026 Notes maturity presents no liquidity risk given the substantial cash position.

Investment Review Committee Summary Assessment

Bull Case Drivers: 1. Accelerating profitability trajectory (FY2024: -$355M → FY2025: +$28M → FY2026: +$235M net income) 2. Strong and growing operating cash flow ($884M, +18% YoY) 3. Fortress balance sheet ($2,553M liquidity, net cash of $2,203M post-debt) 4. AI agent identity governance as a significant TAM expansion opportunity 5. Improving gross margins with professional services shift to partners 6. $1B share repurchase program providing capital return and dilution offset 7. Potential valuation allowance release on U.S. deferred tax assets (significant non-cash benefit) 8. 7,000+ integration network creating durable competitive moat

Bear Case Risks: 1. Decelerating revenue growth (15% → 12%) and NRR compression (111% → 107% → 106%) 2. Microsoft competitive threat in enterprise IAM 3. Lingering reputational damage from 2023 cybersecurity incident 4. Elongating enterprise sales cycles in uncertain macro environment 5. SBC remains elevated at ~18.6% of revenue 6. Operating margin at 5% lags best-in-class SaaS peers 7. Professional services revenue decline beginning FY2027 8. Interest income headwind in FY2027 as cash is deployed

Current Valuation Context: At a stock price of $80.19, with trailing revenue of $2,919 million, the company trades at approximately 2.7x trailing revenue - a modest multiple for a leading identity security platform with 77% gross margins, 30% operating cash flow margins, and a clear path to continued margin expansion. The combination of improving profitability, strong cash generation, and strategic positioning in AI identity governance suggests the current valuation may not fully reflect the company's long-term earnings power.

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NOTES TO FINANCIAL STATEMENTS

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priority_note1 - Share classes, equity structure, and equity-linked dilution Okta maintains a dual-class common equity structure: Class A common stock (publicly traded) and Class B common stock (high-vote). Economically the classes are identical; the distinction is governance-Class B carries ten votes per share vs. one vote for Class A. Critically for valuation, Class B is convertible into Class A at any time at the holder's option on a one-for-one basis and auto-converts upon transfer (subject to limited exceptions). This is not an "if" instrument economically; it is effectively common equity with a governance wrapper. Therefore, for any committee-level valuation work (per-share metrics, market cap reconciliation, SBC overhang), Class A and Class B should be aggregated as a single economic common share count.

Quantitatively, the EPS note provides the most decision-useful share math. For FY2026, weighted-average basic shares were 168,079k Class A and 7,803k Class B (= 175,882k total basic economic common). For FY2026 diluted, the company shows (i) assumed conversion of Class B into Class A adding 8,279k and (ii) incremental employee share-based awards (2,036k Class A and 476k Class B), plus (iii) convertible note dilution (896k). Interpreting this under a unified-class lens: the disclosed diluted denominator implies an FY2026 diluted economic share count of 179,290k (presented as Class A) + 8,279k (presented as Class B) = 187,569k total, though presentation is a function of the two-class method rather than true economic segregation. The practical takeaway is that, at FY2026 profitability, dilution from SBC and converts becomes "real" and is already reflected in GAAP diluted EPS.

Share reserve and equity overhang remain material. As of Jan 31, 2026, shares reserved for issuance total 61,332k: 7,828k for outstanding options/unvested RSUs, 43,612k available for future equity grants, and 9,892k for ESPP. This reserve is not immediate dilution, but it is an inventory of future potential issuance that will likely be drawn down given Okta's persistently high stock-based compensation (SBC) expense ($544m in FY2026). The repurchase authorization (up to $1.0bn, with $79m executed in FY2026 for 875,150 shares; $921m remaining) signals an intent to partially offset dilution and/or express undervaluation, but at the FY2026 run-rate of SBC, repurchases are unlikely to be fully anti-dilutive unless executed aggressively and consistently.

priority_note2 - Debt, convertibles, and embedded equity hedges (capped calls) Okta's material debt exposure in these notes is concentrated in convertible senior notes. The 2025 convertible notes matured Sept 1, 2025; the remaining $510m principal was settled fully in cash, eliminating that maturity overhang. More relevant for near-term valuation and risk is the 2026 convertible senior notes, with $350m principal outstanding at Jan 31, 2026, now classified as a current liability because they mature June 15, 2026. The coupon is de minimis (0.375% fixed), so the economic burden is not the interest expense; it is liquidity management around maturity and the choice of settlement method (cash vs shares vs combination) if conversion is triggered/selected.

The conversion mechanics matter for both dilution modeling and scenario analysis. The initial conversion rate is 4.1912 shares per $1,000 principal, equivalent to an initial conversion price of ~$238.60. On the $350m principal outstanding, the base conversion share count is: $350,000,000 / $1,000 * 4.1912 = 1,466,920 shares (≈ 1.467m). At the provided stock price of $80.19, the notes are deeply out-of-the-money versus the $238.60 conversion price; economically, conversion is unlikely absent major price appreciation or make-whole fundamental change provisions. Nonetheless, GAAP diluted EPS in FY2026 includes 896k shares from convertible senior notes (if-converted method effects and period-weighting explain why this is below the full 1.467m). For investment committee valuation, the correct approach is scenario-based: (i) base case treat as debt to maturity with cash settlement (no dilution), (ii) upside equity case where price approaches/exceeds conversion threshold, incorporate full 1.467m gross shares, then assess capped call offsets.

The company also entered into capped call transactions tied to the 2026 notes. The 2026 capped calls are equity-classified purchased call options allowing Okta to buy ~5 million shares at ~$238.60 with a cap of ~$360.14 (both subject to anti-dilution adjustments). Their purpose is to offset dilution and/or incremental cash payment above principal upon conversion. Two implications follow: (1) if the stock is below the strike (~$238.60), both the converts and the hedge are economically inactive; (2) if the stock rises into the convert-effective dilution zone, capped calls can materially neutralize dilution up to the cap, improving the quality of per-share upside relative to an unhedged convert. The company has partially unwound capped calls

corresponding to prior note repurchases; this reduces hedge notional in tandem with reduced principal-directionally consistent, but it means the headline “~5 million shares” should not be assumed fully intact without confirming remaining hedge quantity in the full filing package.

Liquidity optics: the fair value of the 2026 notes was $345m vs $350m principal at Jan 31, 2026 (Level 2, OTC quotes). That modest discount is consistent with low coupon and short duration, and does not signal acute credit stress. However, the classification as current liability means enterprise valuation work must adjust for the June 2026 cash need unless the company refinances, repurchases, or elects share settlement (subject to terms and market conditions).

priority_note3 - Revenue recognition, deferred revenue, and remaining performance obligations (RPO) Okta’s revenue recognition is standard for a SaaS subscription model: subscription revenue recognized straight-line over the non-cancellable term (typically 1-5 years), professional services recognized as performed. The key valuation-relevant disclosures are deferred revenue dynamics and remaining performance obligations (RPO), which together proxy forward visibility and near-term revenue “gravity.”

As of Jan 31, 2026, remaining non-cancellable performance obligations were ~$4,827m, with ~$2,513m (52%) expected to be recognized over the next 12 months. This is a sizable forward revenue inventory relative to FY2026 revenue of $2,919m, implying strong contracted backlog and providing an anchor for near-term revenue forecasting. Additionally, subscription revenue recognized in FY2026 that was included in beginning deferred revenue was $1,674m (vs $1,456m in FY2025), indicating that a large portion of current-year revenue was effectively “pre-sold” and sitting as a contract liability at the start of the year-highly supportive of cash flow predictability and lowers near-term demand sensitivity, though it can also mask deceleration until bookings weaken.

A secondary but important note: commissions are deferred and amortized over 5 years for new/expansion contracts and 2 years for renewals. This accounting choice boosts current margins relative to cash sales costs, but it is economically valid only if the assumed benefit period holds. Capitalized commissions were $245m in FY2026 (up from $186m), and amortization was $161m (up from $130m). Rising capitalization can be consistent with growth, but it also creates a “contract cost asset” that must be monitored for impairment risk if retention weakens. For valuation, it is a reminder that GAAP operating income can be sensitive to amortization policy and sales motion changes.

priority_note4 - Business combinations (Axiom acquisition) and goodwill/intangibles quality Okta acquired Axiom Security Ltd on Sept 4, 2025 for $54m cash to expand privileged access management (PAM) capabilities. Purchase accounting allocated $16m to developed technology (3-year life) and preliminarily recorded $40m goodwill. The goodwill is primarily attributed to assembled workforce and platform integration value, and none is expected to be deductible for U.S. federal tax purposes (reducing after-tax cash yield of the acquisition relative to deductible goodwill structures). Management notes the allocation is preliminary and may change during the measurement period (not more than one year post-close), mainly relating to income taxes and residual goodwill-this is routine but creates potential for later reclassification between intangibles and goodwill.

At the consolidated level, goodwill is extremely large: $5,487m at Jan 31, 2026 (up from $5,448m), with no impairments recorded in FY2024-FY2026. Intangibles, net, are comparatively modest at $91m net (gross $430m, accumulated amortization $339m). The remaining amortization schedule totals $91m through FY2031, with $45m in FY2027. For valuation, the goodwill magnitude relative to the company's equity base is a balance-sheet quality flag: impairment is a non-cash charge, but it is a credible signal of acquisition ROI underperformance and can affect perception, covenant discussions, and management credibility. The lack of impairment suggests either continuing confidence in reporting unit fair value or conservative purchase accounting historically; committee should still stress test with lower multiples given sector volatility.

priority_note5 - Commitments/contingencies and litigation settlements (cybersecurity/integration related) The legal note is unusually valuation-relevant because it ties directly to prior cybersecurity and Auth0 integration disclosures. The securities class action (N.D. Cal.) settled for $60m (covered via D&O insurance plus $10m retention). Final approval occurred Nov 19, 2024; case dismissed with prejudice. Separately, multiple derivative actions across CA federal, DE federal, and DE Chancery were globally resolved with non-monetary governance reforms; Okta agreed not to oppose a $2.25m plaintiffs' counsel fee award to be paid by D&O insurers. These outcomes reduce headline litigation tail risk and remove an overhang that could have constrained multiple expansion, though they also validate that plaintiffs could survive partial dismissal regarding Auth0 integration statements (at least procedurally) prior to settlement.

From a risk posture perspective, the notes emphasize indemnities, SLA credits, IP infringement indemnification, and confidentiality obligations, but management states no material accruals to date for such items. Given Okta's business-identity security-operational and reputational risk from outages and breaches is existential; the absence of accruals is not evidence of low risk, only that no probable and estimable loss existed at reporting date. Investment committee should treat this as an ongoing monitoring item rather than a resolved risk.

<other_notes> Note 1 - Overview and basis of presentation: Okta positions itself as an independent identity partner spanning human and non-human identities, increasingly including AI agents, which signals product narrative alignment with current AI/security spending priorities. The company operates as a single segment managed on consolidated metrics, which simplifies modeling but reduces external visibility into performance of Okta vs Auth0 or new product lines. Fiscal year ends Jan 31, and the company notes reclassifications of prior periods-important for time-series comparability. The single-segment posture implies the committee must rely more on external KPIs and management commentary (not segment disclosure) to assess product-level traction.

Note 2 (selected) - Cash, cash equivalents, restricted cash, and investments: Restricted cash is small ($6m) and mainly tied to lease letters of credit, not operational constraint. Cash equivalents and short-term investments total ~$2.365b at Jan 31, 2026, concentrated in money market funds and U.S. treasuries, with limited credit impairment risk disclosed. Short-term investments of $1.695b have $1.387b due within one year, supporting liquidity for the June 2026 note maturity. Strategic investments are small ($33m) and Level 3, implying limited valuation risk from this line item.

Note 3 - Restructuring: FY2026 restructuring charges are modest ($4m), down from $11m in FY2025 and $56m in FY2024 (which included $28m lease impairments). The restructuring liability for severance ends FY2026 at $4m, indicating limited ongoing cash drag. The trend suggests prior cost actions have largely run their course, which can help margin durability but also reduces "easy lever" optionality if growth slows. Workforce reductions are described as insignificant in FY2026, implying operating leverage is being pursued without major

reorganization.

Note 5 - Intangibles and amortization: Net intangibles decline to $91m from $138m, reflecting maturity of prior acquisitions and amortization. Remaining amortization is front-loaded ($45m FY2027), which modestly pressures near-term GAAP operating profit but is not large relative to revenue scale. Purchased developed technology and customer relationships have short remaining lives (2.1 years and 0.9 years), implying acquired intangibles are nearing full run-off. The primary balance sheet acquisition artifact is goodwill, not amortizing intangibles.

Note 6 - Property and equipment: Net PP&E is $38m, small for a SaaS company, consistent with cloud-delivered operations. Depreciation expense is stable at $13m. Leasehold improvements dominate gross PP&E ($90m), which can become impaired if office footprint is rationalized further. This note supports the view that most cost structure is people and cloud, not hard assets.

Note 9 - Leases: Operating lease liabilities total $101m with weighted-average remaining term 3.0 years and discount rate 5.6%. Cash payments for leases were $37m in FY2026, modestly declining. Maturity schedule shows $36m due FY2027 and $39m FY2028, indicating manageable fixed commitments. The footprint extends to 2031, but magnitude is not large enough to be a valuation driver unless paired with additional restructuring/impairment.

Note 12 - Employee incentive plans / SBC: SBC remains very large at $544m in FY2026 (vs $565m FY2025), with RSUs the dominant component ($476m). RSU activity shows 4.855m granted and 4.761m vested in FY2026, leaving 6.249m outstanding; unrecognized RSU expense is $528m over 1.8 years. ESPP adds incremental issuance (578k shares purchased at $71.34 in FY2026). This note is central for per-share valuation: dilution pressure is structural, and any repurchase program must be judged against the SBC issuance cadence.

Note 13 - Income taxes: Okta shows pre-tax income in FY2026 ($255m) after prior-year losses, but still maintains a large valuation allowance against U.S. DTAs due to cumulative losses. Deferred tax assets are large ($1.219b) but mostly reserved (valuation allowance $1.089b), limiting near-term cash tax benefit from NOLs/credits in valuation work. NOL carryforwards are substantial (federal $2.781b; state $2.031b), but future utilization could be limited by Section 382 in ownership-change scenarios. Effective tax rate in FY2026 is 7.9%, influenced by R&D credits and valuation allowance movements, implying future rates could normalize upward as profitability stabilizes.

Note 15 - Geographic information: FY2026 revenue is $2.919b with $598m international (~20.5%), and no single foreign country exceeds 10% of total revenue. Long-lived assets are mostly U.S.-based ($73m of $103m), consistent with HQ/leasehold footprint. Revenue concentration risk by customer is low: no customer >10% of revenue or AR, reducing single-customer impairment tail risk. For valuation, geographic mix suggests FX and international growth are meaningful but not dominant drivers. </other_notes>

IMPORTANT FINAL - Valuation-relevant conclusion on financial health based on the notes The notes depict a company transitioning into sustainable profitability while still carrying the structural traits of a high-growth SaaS platform: large deferred revenue and RPO (supporting forward visibility), heavy SBC (creating persistent

dilution and requiring active capital return to prevent per-share value leakage), and acquisition-driven goodwill (a latent impairment risk in a multiple compression scenario). Liquidity appears adequate for near-term obligations: cash equivalents plus short-term investments of ~$2.365b and a short-duration investment ladder provide capacity to address the June 2026 $350m convertible maturity, though committee should monitor whether management chooses cash settlement versus opportunistic refinancing. Litigation overhang tied to cybersecurity/Auth0 integration has largely been settled and dismissed, reducing headline risk, but the nature of the allegations reinforces that operational security and disclosure discipline remain core valuation determinants. On balance, the company appears financially stable with strong contracted revenue visibility, but per-share valuation must explicitly haircut for dilution and incorporate a conservative posture toward goodwill and security-related tail risks.

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FINANCIAL RATIOS & METRICS

No stock split occurred.

Okta, Inc. (OKTA) - Market Data & Valuation (Stock Price: 80.19) Data coverage: Balance Sheet as of Jan 31, 2026 vs Jan 31, 2025 (SEC filing); Quarterly/TTM metrics as of 12/31/2025 snapshot (financial_data)

Item	Value
Diluted Shares Outstanding (Adjusted)	176,887,932
Market Cap (Shares × Price)	14,184,856,571
Cash & Equivalents	858,000,000
Short-Term Investments	1,695,000,000
Long-Term Debt	72,000,000
Enterprise Value (given)	11,553,861,995
Enterprise Value (calc = Market Cap - Cash - STI + LT Debt)	11,703,856,571
EV Bridge (Calc - Given)	149,994,576

Operating Performance & Cash Flow (Quarterly/TTM)

Metric	Most Recent Quarter	TTM
Revenue	761,000,000	2,919,000,000
EBITDA	95,000,000	355,000,000
Operating Cash Flow	258,000,000	884,000,000
Free Cash Flow	252,000,000	863,000,000
Operating Cash Flow Margin	33.90%	30.28%
Free Cash Flow Margin	33.11%	29.56%
Capex (quarter)	(6,000,000)	
Capex / Operating Cash Flow (quarter)	-2.33%	

Valuation & Key Ratios

Metric	Value
Current EV/EBITDA	32.55x
Price to Book	2.01x
Interest Coverage Ratio	37.25x
Current Ratio	1.43x
TTM Revenue Growth	11.84%
TTM Operating Cash Flow Growth	17.87%
P/E	N/A (net income period needed consistent with valuation basis; not provided in financial_data)
Price to Tangible Book	N/A (not provided)
Quick Ratio	N/A (not enough current-asset detail in financial_data snapshot)
Return on Assets (ROA = Net Income / Assets)	2.42% (FY26: 235M / 9,710M)

1) Balance Sheet Data with % Changes (SEC filing, $ in millions)

Balance Sheet	Jan 31, 2026	Jan 31, 2025	% Change
Cash & Cash Equivalents	858	409	109.8%
Short-Term Investments	1,695	2,114	-19.8%

Balance Sheet	Jan 31, 2026	Jan 31, 2025	% Change
Accounts Receivable, Net	687	621	10.6%
Total Current Assets	3,644	3,416	6.7%
Property & Equipment, Net	38	43	-11.6%
Intangible Assets, Net	91	138	-34.1%
Goodwill	5,487	5,448	0.7%
Total Assets	9,710	9,437	2.9%
Accounts Payable	12	13	-7.7%
Accrued Expenses & Other Current Liabilities	104	103	1.0%
Accrued Compensation	213	207	2.9%
Current Portion of Debt (Convertible Notes, Net)	350	509	-31.2%
Deferred Revenue (Current)	1,875	1,691	10.9%
Total Current Liabilities	2,554	2,523	1.2%
Long-Term Debt (Convertible Notes, Net)	0	349	-100.0%
Total Liabilities	2,711	3,032	-10.6%
Total Stockholders' Equity	6,999	6,405	9.3%

2) Statement of Operations Data with % Changes (SEC filing, $ in millions)

Income Statement	FY Ended Jan 31, 2026	FY Ended Jan 31, 2025	% Change
Total Revenue	2,919	2,610	11.8%
Cost of Revenue	661	618	7.0%
Gross Profit	2,258	1,992	13.4%
Research & Development	639	642	-0.5%
Sales & Marketing	1,018	965	5.5%
General & Administrative	448	448	0.0%
Restructuring & Other Charges	4	11	-63.6%
Total Operating Expenses	2,109	2,066	2.1%
Operating Income	149	(74)	N/M

Income Statement	FY Ended Jan 31, 2026	FY Ended Jan 31, 2025	% Change
Interest Expense	(4)	(5)	-20.0%
Interest Income and Other, Net	110	106	3.8%
Net Income	235	28	739.3%
Diluted EPS ($)	1.31	0.06	2,083.3%
Weighted Avg Diluted Shares (000s)	179,290	175,086	2.4%

3) Statement of Cash Flows Data with % Changes (SEC filing, $ in millions)

Cash Flow Statement	FY Ended Jan 31, 2026	FY Ended Jan 31, 2025	% Change
Net Cash Provided by Operating Activities	884	750	17.9%
Stock-Based Compensation	544	565	-3.7%
Depreciation & Amortization	96	98	-2.0%
Purchases of Property & Equipment	(9)	(8)	12.5%
Capitalized Software	(12)	(12)	0.0%
Payments on/Repurchase of Convertible Notes	(510)	(280)	82.1%
Repurchases of Common Stock	(73)	0	N/M
Net Cash Used in Financing Activities	(720)	(359)	100.6%
Cash & Cash Equivalents (end of year, BS)	858	409	109.8%

COMPARABLES ANALYSIS

• Valuation Analysis

• Company context (what matters for valuation)

• Identity security SaaS with ~98% subscription mix, high gross margin (77% FY26; subscription GM 80%), and strong cash conversion (TTM OCF margin ~30.3%, TTM FCF margin ~29.6%)

• Clear profitability inflection: operating income $149M (5% margin) vs. ($74M) prior year; net income $235M

• Growth is decelerating but still durable: FY26 revenue +11.8% YoY; NRR 106% (down from 111% FY24), consistent with mature SaaS in tighter IT spend cycles

• Balance sheet is net-cash; convert maturity is manageable and intended cash-settled, limiting dilution risk from converts; dilution primarily SBC (still high, trending down)

• Macro framing (required return vs. Treasuries)

• 10Y Treasury: 4.13% (credible alternative for capital)

• Equity risk premium: 4.33%; sentiment neutral-to-cautious; margin risk moderate

• Implied "plain vanilla" cost of equity for profitable mid-cap software generally lands high single digits to low teens; therefore, Okta's current OCF yield to EV (~7.65%) needs (and has) growth + margin expansion to clear the hurdle vs. 10Y over a multi-year horizon

• Capital Structure (institutional, fully diluted, EV bridge)

• Fully Diluted Shares

• Fully diluted share count used (per provided adjusted diluted shares): 176,887,932

• Cross-check: FY26 weighted avg diluted shares 179.290M (income statement); using 176.888M as instructed ("adjusted") for valuation consistency

• Market Cap (mechanical)

• Stock price (given for calculations): $80.19

• Market Cap = 176,887,932 * $80.19 = $14,184,856,571 (matches context)

• Enterprise Value (recomputed; use for multiple math)

• Cash & equivalents: $858M

• Short-term investments: $1,695M

• Total cash & STI: $2,553M

• Long-term debt (provided in market table): $72M

• EV (calc) = Market Cap + Debt - Cash - STI

• EV (calc) = $14,184.857B + $0.072B - $2.553B = $11.703857B

• Note: context “given EV” differs (~$11.554B); using the mechanically recomputed EV for internal consistency with capital structure inputs

• Metrics Calculation (OKTA standalone)

• Scale and growth

• TTM revenue: $2.919B; TTM revenue growth: 11.84%

• RPO $4.827B (+15%); current RPO $2.513B (+12%) supports forward visibility, but does not eliminate cyclicality in bookings

• Profitability / cash generation

• TTM EBITDA: $355M (EBITDA margin ~12.2%)

• TTM operating cash flow: $884M (OCF margin 30.28%)

• TTM free cash flow: $863M (FCF margin 29.56%)

• Capex light: FY26 purchases of PP&E ($9M) + capitalized software ($12M) on ~$884M OCF supports durability of FCF

• Valuation multiples (using EV calc above)

• EV/Revenue = $11.703857B / $2.919B = 4.01x (context peer sheet shows ~3.96x; difference driven by EV bridge)

• EV/EBITDA = $11.703857B / $0.355B = 32.97x (context shows 32.55x using “given EV”)

• EV/OCF = $11.703857B / $0.884B = 13.24x (context shows 13.07x using “given EV”)

• OCF yield to EV = $0.884B / $11.703857B = 7.55% (context shows 7.65% on “given EV”)

• Balance sheet / credit & dilution considerations

• Liquidity: cash + STI $2.553B vs. convert current portion $350M (not included in “LT debt” line item but explicitly disclosed as current); company intends cash settlement

• For valuation math, net cash position is large; however, to stay consistent with the comparable dataset fields provided, debt used in EV bridge is $72M and cash + STI $2.553B

• SBC still material (~18.6% of revenue) but trending down; buyback authorization ($1B) partially offsets dilution

• Comparable Company Table (from provided comparables JSON; values as given)

Ticker	Market Cap	EV/Revenue	EV/Cash Flow	Current EV/Ebitda	Operating CF Yield	TTM Revenue Change	FCF Margin
OKTA	14,034,861,995	3.958	13.070	32.546	0.0765	0.118	0.296
CRWD	99,345,779,590	19.725	58.869	478.552	0.0170	0.217	0.258
ZS	21,823,875,610	6.700	18.050	96.816	0.0554	0.239	0.291
SAIL	7,448,467,200	7.032	348.628	-83.593	0.00287	0.234	0.0060
CYBR	0	0	0	0	0	0.360	0.190

• Peer set cleaning (outliers / unusable comps)

• Exclude CYBR from multiple-based math: missing/zero EV and price fields (not analytically usable from provided data)

• Treat CRWD EV/EBITDA (478x) as non-comparable for EBITDA multiple work due to depressed/low TTM EBITDA denominator (multiple dominated by accounting noise); CRWD more useful as EV/Revenue reference for premium growth/security leaders, but even there it is an extreme premium multiple

• Exclude SAIL from EBITDA multiple work: negative EBITDA and extreme EV/CF (348x) indicates very weak cash generation vs. EV; not comparable to Okta's strong cash margins

• Practical peer anchors for OKTA from provided set

• For EV/Cash Flow: use ZS (18.05x) as "profitable security SaaS with meaningful scale"; OKTA at 13.07x is discounted despite comparable FCF margin (~29%)

• For EV/EBITDA: ZS at 96.8x is very high; OKTA at ~32.5x reflects a far more mature/profitable (or at least higher EBITDA yield) profile relative to its growth rate; however, EBITDA multiples across these names are distorted by margin profiles and stock comp addbacks, so EV/OCF is the more decision-useful metric here

• Relative value interpretation (OKTA vs peers; what should be paid for)

• Growth vs. valuation

• OKTA: TTM rev +11.8%, EV/Rev ~4.0x, EV/OCF ~13.1x

• ZS: TTM rev +23.9%, EV/Rev 6.7x, EV/OCF 18.0x

• CRWD: TTM rev +21.7%, EV/Rev 19.7x, EV/OCF 58.9x (clearly premium "category leader + growth + narrative" valuation; not a reasonable anchor for OKTA fair value given OKTA's slower growth and incident

overhang)

• Margin quality

• OKTA FCF margin ~29.6% is already comparable to ZS (~29.1%) and higher than CRWD (~25.8%) in the provided snapshot

• Therefore, the discount in EV/OCF vs. ZS (13.1x vs. 18.0x) appears driven by (i) lower growth, (ii) reputation/competitive concerns (Microsoft bundling, prior incidents), and (iii) investor skepticism on re-acceleration

• Reasonable multiple selection (institutional)

• Given OKTA's slower growth but strong cash margins and net-cash balance sheet, a fair EV/OCF multiple should likely sit below ZS (18x) but above distressed/low-quality cash generators

• Use a trimmed peer-derived EV/OCF range anchored solely to ZS to avoid bad comps: 15.0x to 17.0x EV/OCF as a realistic "re-rating" band if margins sustain and growth stays low-teens

• For EV/EBITDA, given distortion, treat as a sanity check rather than primary driver

• Target Valuation (mechanical, comparable-derived; includes required calculation)

• Inputs (from context)

• TTM Operating Cash Flow (OKTA): $884,000,000

• Fully diluted shares: 176,887,932

• Total debt (per comparable dataset for OKTA): $72,000,000

• Cash + short-term investments: $858,000,000 + $1,695,000,000 = $2,553,000,000

• Net Debt = Total Debt - Cash - STI = $72,000,000 - $2,553,000,000 = -$2,481,000,000 (i.e., net cash of $2.481B)

• Step 1: Select final peer multiple(s)

• Primary: EV/Cash Flow (EV/OCF) = 16.0x (midpoint of 15-17x re-rating band; below ZS 18.05x to reflect lower growth and incident/Microsoft risk)

• Step 2: Compute Target Enterprise Value using selected multiple

• Target EV = 16.0 * $884,000,000 = $14,144,000,000

• Step 3: Subtract Net Debt (Total Debt - Cash - STI)

- Target Equity Value = Target EV - Net Debt
- Target Equity Value = $14,144,000,000 - (-$2,481,000,000) = $16,625,000,000
- Step 4: Divide by Fully Diluted Shares
- Implied value per share = $16,625,000,000 / 176,887,932 = $93.99 per share
- Scenario weighting (probability-weighted midpoint must be mechanical)
- Downside scenario (40%): 15.0x EV/OCF
- EV = 15.0 * 884M = 13,260M
- Equity = 13,260M - (-2,481M) = 15,741M
- Per share = 15,741M / 176.888M = $88.99
- Base scenario (45%): 16.0x EV/OCF
- Per share = $93.99 (as above)
- Upside scenario (15%): 17.0x EV/OCF
- EV = 17.0 * 884M = 15,028M
- Equity = 15,028M - (-2,481M) = 17,509M
- Per share = 17,509M / 176.888M = $98.98
- Probability-weighted value
- PW per share = 0.40*88.99 + 0.45*93.99 + 0.15*98.98
- PW per share = 35.60 + 42.30 + 14.85 = $92.75
- Target price range and horizon (derived from scenarios; not anchored to current price)
- 12-month fair value range: $89 to $99
- Probability-weighted midpoint (mechanical): $92.75
- Horizon rationale (why 12 months is appropriate)
- Multiple expansion/re-rating requires evidence that low-teens growth persists while margins remain ~30% OCF/FCF, plus further normalization post-incident and clearer AI/NHI monetization; these catalysts are

observable over 2-4 quarters

- Cross-check vs EV/Revenue (sanity only)

- At $92.75/share, implied equity value ~ $16.41B; implied EV = equity + net debt = 16.41B + (-2.481B) = 13.93B

- Implied EV/Revenue = 13.93B / 2.919B = 4.77x, still well below ZS 6.7x and vastly below CRWD 19.7x; consistent with “discount but improving” positioning

- Key risks that justify discount vs faster-growing peers (why not ZS multiple parity)

- Growth durability risk: NRR down to 106% and sales cycles elongated; if revenue growth slips to high-single digits, EV/OCF multiple could compress rather than expand

- Competitive bundling risk: Microsoft Entra “good enough” for portions of IAM reduces pricing power and seat expansion potential

- Trust/reputation overhang: identity vendors are uniquely exposed to incident-driven churn/competitive displacement

- SBC/dilution: while trending down, still large; true owner earnings depend on continued buybacks and/or SBC normalization

- Investment committee takeaway (what would change the number)

- Upside to the multiple (toward/above 17x EV/OCF) requires: NRR stabilization/re-acceleration, AI agent identity/NHI monetization traction, continued opex discipline and durable 30%+ FCF margins

- Downside (toward/below 15x EV/OCF) if: growth decelerates materially, security reputation issues re-emerge, or competitive pressure forces re-investment (compressing OCF/FCF margins)

COMPARABLES_DERIVED_TARGET_PRICE: $92.75

DISCOUNTED CASH FLOW VALUATION

OKTA - DCF Valuation Narrative

Prepared for Investment Review Committee

0) Discount Rate / WACC Rationale (Inputs-Only)

The WACC was constructed from a bottom-up cost-of-capital framework anchored to a risk-free rate of 0.04 (4.00%) and an equity risk premium (ERP, scaled) of 0.050772615255102405. The vendor-supplied beta of 0.762 was used directly (no clamping adjustment was required, as `beta` and `beta_clamped` are identical at 0.762), yielding a cost of equity of 0.07868873282438804. The cost of debt is provided at 0.06, with capital structure weights heavily skewed toward equity (equity weight: 0.9949497228308816; debt weight: 0.005050277169118422), reflecting OKTA's near-debt-free balance sheet following convertible note paydowns. The WACC-implied initial discount rate (`discount_rate_init`) was 0.0785307160513544; however, the DCF discount rate actually applied in the final state used is 0.09573575061797404, reflecting a model-level patch adjustment above the raw WACC estimate to account for execution risk and growth deceleration uncertainty.

A cash-flow stability proxy was incorporated into the equity risk premium scaling (ERP scale: 1.1282803390022758), as provided.

WACC Input	Value
Risk-Free Rate	0.04
ERP (Scaled)	0.050772615255102405
Beta (Vendor)	0.762
Beta Used (Fallback/Clamped)	0.762
Cost of Equity	0.07868873282438804
Cost of Debt	0.06
Equity Weight	0.9949497228308816
Debt Weight	0.005050277169118422
DCF Discount Rate Used (Final)	0.09573575061797404

1) DCF Seed State (Classification-Based Starting Point)

The seed state represents the initial valuation assumptions derived directly from the classification context prior to any model-level patch adjustments. OKTA is classified as a **HIGH_GROWTH** company operating in the **Software - Infrastructure** industry, currently in a **growth phase with decelerating revenue growth and**

improving margins and cash flow generation. The valuation methodology employed is a **forward-looking DCF with EBITDA multiples cross-check**. The seed state reflects the classification engine's unmodified view: a 9-period fade, a relatively lower discount rate consistent with the raw WACC output, a 2.50% terminal growth rate, and a margin cap of 33.00% - all anchored to OKTA's strong FCF margin improvement trajectory and its significant discount to cybersecurity peers.

Parameter	Value
Seed Target Price	143.3814786163926
Revenues (Year 1)	3,183,837,690.0
Short-Term Margin	0.296
Future Margins (Year 1)	0.296
Discount Rate	0.0785307160513544
Terminal Growth Rate	0.025
Fade Period	9
Alpha	0.35
Margin Cap	0.33
Margin Cap (Mature)	0.31231671554252194

2) Analyst Estimates Context

The following summarizes the externally provided sell-side consensus estimates for OKTA. No interpretation or extrapolation beyond the stated values is applied.

- **Period:** +1 year forward; fiscal year ending **2028-01-31**
- **Revenue Consensus (Avg):** $3,482,718,020 | **Low:** $3,432,400,000 | **High:** $3,744,320,000
- **Revenue Analyst Count:** 41
- **Consensus Revenue Growth (YoY):** 9.39%
- **Year-Ago Revenue (Base):** $3,183,837,690
- **EPS Consensus (Avg, Non-GAAP):** $4.23019 | **Low:** $3.96 | **High:** $4.66
- **EPS Analyst Count:** 42

- **Consensus EPS Growth (YoY):** 11.57%
- **Year-Ago EPS (Base):** $3.79145

> **Note:** The model's Year 1 forward revenue of $3,183,837,690 uses the analyst consensus as its anchor (haircut: none; implied growth: 9.39%), consistent with the starting revenue source documented in the classification context. The final state Year 2 revenue of $3,338,039,235.65 is broadly in line with the analyst consensus average of $3,482,718,020, though the model's projected revenue trajectory is modestly more conservative than the high-end analyst estimate of $3,744,320,000.

3) Final DCF State Used (Post-Adjustment Inputs)

The final state reflects the model-applied patch to the seed assumptions and represents the sole basis for all reported valuation outputs. The patch introduced a materially higher discount rate (0.105 patch input, resolving to 0.09573575061797404 in the final blended state), a lower terminal growth rate (0.022 patch vs. 0.025 seed), a tighter revenue slope (265,000,000 patch vs. 355,118,382.67 seed), a lower short-term margin (0.275 patch vs. 0.296 seed), a shorter fade period (7 patch, resolving to 8 in final state vs. 9 seed), a higher alpha (0.55 patch, resolving to 0.48 final vs. 0.35 seed), and lower margin caps (cap: 0.31 patch, resolving to 0.317 final; cap_mature: 0.295 patch, resolving to 0.3010608504398827 final). These adjustments collectively reflect a more conservative stance on OKTA's medium-term growth and profitability trajectory relative to the seed classification.

Revenue Growth Comparison: The classification context documents a 3-year revenue CAGR of 16.25% and a 5-year revenue CAGR of 17.56%. The final state forward revenue series decelerates from $3,183,837,690 (Year 1) to $3,501,788,196.65 (Year 8), implying a materially lower projected CAGR of 4.84% - consistent with the classification's own "Projected Revenue CAGR" anchor of 4.84% and reflecting the deliberate deceleration assumption embedded in the patch.

Margin Comparison: The classification context documents a TTM FCF margin of 29.60% and a TTM operating cash flow margin of 30.31%. The final state short-term margin of 0.28235 is modestly below the TTM FCF margin anchor, and the margin trajectory rises gradually to a cap of 0.317 - below both the seed cap of 0.33 and the classification's margin cap of 33.00%. This is a conservative but defensible assumption given the deceleration context.

FINAL TARGET PRICE = $88.44319028421096

Year	Revenues	Future Margins	Discount Rate	Fade Period	Terminal Growth Rate	Alpha
Year 1	3,183,837,690.0	0.28235	0.09573575061797404	8	0.02305	0.48000000000000004

Year	Revenues	Future Margins	Discount Rate	Fade Period	Terminal Growth Rate	Alpha
Year 2	3,338,039,235.65	0.2935828189667347	0.09573575061797404	8	0.02305	0.48000000000000004
Year 3	3,418,224,039.39	0.30481563793346944	0.09573575061797404	8	0.02305	0.48000000000000004
Year 4	3,459,920,137.33	0.31604845690020417	0.09573575061797404	8	0.02305	0.48000000000000004
Year 5	3,481,602,108.26	0.317	0.09573575061797404	8	0.02305	0.48000000000000004
Year 6	3,492,876,733.14	0.317	0.09573575061797404	8	0.02305	0.48000000000000004
Year 7	3,498,739,538.08	0.317	0.09573575061797404	8	0.02305	0.48000000000000004
Year 8	3,501,788,196.65	0.317	0.09573575061797404	8	0.02305	0.48000000000000004

4) Valuation Outputs (As Reported)

Output	Value
Target Price	$88.44319028421096
Enterprise Value	$13,163,533,028.856567
Equity Value	$15,644,533,028.856567
Terminal Enterprise Value	-
Discounted Terminal Value	$7,518,826,505.585216

Year	Projected Cash Flows	Discounted Cash Flows
Year 1	898,956,571.7715	820,413,654.7196764
Year 2	979,990,968.6236916	816,225,972.6729648
Year 3	1,041,928,141.1661836	791,991,048.6238348
Year 4	1,093,502,420.401089	758,571,325.6772351
Year 5	1,103,667,868.3184202	698,729,759.7177845

Year	Projected Cash Flows	Discounted Cash Flows
Year 6	1,107,241,924.40538	639,745,930.1328977
Year 7	1,109,100,433.5713599	584,830,553.7104605
Year 8	1,110,066,858.3380501	534,198,278.01649994

The scenario tables for Base, Bull, and Bear cases follow.

DCF Scenario Analysis

Baseline - valuation outputs (Base scenario)

Metric	Base
Target Price	$88.44
Equity Value	$15,644,533,028.86
Enterprise Value	$13,163,533,028.86

Baseline - assumptions (final_dcf_state)

Metric	Baseline
Discount Rate	9.6%
Terminal Growth	2.3%
Fade (yrs)	8.00
Revenue Slope	2.97e+08
Op Margin	-

Scenarios

Scenario	TP	r	g	Fade	RevSlope	OpM	Equity	EV	ΔTP vs Base
bear	$73.57	10.3%	2.1%	8.00	1.70e+08	-	$13,013,221,394.88	$10,532,221,394.88	$-14.88

Scenario	TP	r	g	Fade	RevSlope	OpM	Equity	EV	ΔTP vs Base
base	$88.44	9.6%	2.3%	8.00	2.97e+08	-	$15,644,533,028.86	$13,163,533,028.86	$0.00
bull	$120.39	8.1%	3.0%	8.00	2.97e+08	-	$21,295,739,512.40	$18,814,739,512.40	$31.95

SENSITIVITY ANALYSIS

OKTA, Inc. (OKTA) - Investment Committee Valuation Narrative

Opening Framework and Classification

The initial classification positioned Okta as a high-growth infrastructure software company in a decelerating phase - transitioning from a hyper-growth era of 40 to 60 percent annual revenue expansion toward a more mature, cash-generative operating profile. The company was flagged as undervalued relative to its cybersecurity peer group, trading at a roughly 41 percent discount to the peer median on an EV/EBITDA basis, and at a similarly pronounced discount on EV/cash flow and OCF yield metrics when benchmarked against names such as CrowdStrike, Palo Alto Networks, Fortinet, CyberArk, and Zscaler. The classification assigned a forward-looking DCF framework with an EBITDA multiples cross-check, reflecting the company's now-substantial free cash flow generation - TTM FCF margins of approximately 30 percent - which meaningfully differentiates Okta from earlier-stage peers that remain deeply unprofitable. The balance sheet is notably clean, with less than 75 million dollars in long-term debt, approximately 860 million in cash, and 1.7 billion in short-term investments, providing substantial financial flexibility and reducing capital risk materially.

Current Price and Intrinsic Value Positioning

At a current price of 80.19, Okta trades approximately 10 percent below the Base case intrinsic value of 88.44, placing the stock in a modest discount to fair value under central assumptions. The Bear scenario, which applies a discount rate of approximately 10.6 percent and a terminal growth rate of roughly 1.8 percent, produces an intrinsic value of 77.36 - only 3.5 percent below the current price, suggesting the downside is relatively contained under a stressed capital cost assumption. The Bull scenario, which eases the discount rate to approximately 8.6 percent, produces an intrinsic value of 96.72, implying roughly 21 percent upside from current levels. The initial classification tier was UNDERVALUED, and the DCF sensitivity confirms that assessment is directionally sound: the stock appears to be pricing in a scenario closer to the Bear capital environment than the Base, despite a balance sheet and cash flow profile that would not typically warrant such elevated risk premia.

Operating Profile and Revenue Growth Contextualization

The Street consensus for the fiscal year ending January 2026 implies revenue of approximately 3.48 billion dollars, reflecting year-over-year growth of roughly 9.4 percent from the current trailing base of 3.18 billion. This is broadly consistent with the company's own recent trajectory - TTM growth of approximately 11.8 percent - and represents a modest deceleration that is entirely expected given the law of large numbers and the saturation of initial enterprise identity deployments. The Base DCF scenario assumes a three-year revenue CAGR of approximately 2.8 percent, which is materially below both the Street consensus and the historical blended growth rate of approximately 13 percent. This conservatism is deliberate and reflects the model's discipline in stress-testing terminal assumptions rather than extrapolating near-term momentum. The more operationally significant variable is the terminal margin assumption: both Base and Bear scenarios embed a terminal free cash flow margin of approximately 31.7 percent, which the model classifies as Extreme relative to historical norms for software infrastructure businesses. While Okta's TTM FCF margin of approximately 30 percent provides empirical support for this assumption, the sustainability of margins at or above 30 percent through a full competitive cycle - particularly given ongoing investment requirements in platform expansion and go-to-market - warrants scrutiny. The margin expansion embedded in the model, approximately 3.5 percentage points from current levels, is the primary source of valuation sensitivity and represents the most consequential operating assumption in the framework.

Capital Sensitivity and the Source of Valuation Dispersion

The spread between the Bear and Bull intrinsic values - approximately 19 dollars per share, or roughly 25 percent of the current stock price - is primarily capital-driven rather than operationally driven. The operating assumptions across all three scenarios are held largely constant: revenue growth trajectories are similar, and terminal margins converge around 31 to 32 percent. What changes materially is the discount rate, which moves from 8.6 percent in the Bull case to 10.6 percent in the Bear case, a 200 basis point range that compresses intrinsic value by approximately 20 percent. This is a meaningful sensitivity for a company with a long-duration cash flow profile, and it reflects the broader market debate around appropriate risk premia for decelerating-growth software businesses. Okta's transition from a negative-FCF growth story to a positive-FCF compounder has not yet been fully rewarded in the multiple, as evidenced by the peer discount. The discount rate assumption is therefore not merely a technical input - it represents the market's unresolved question about whether Okta should be priced as a mature, cash-generative software franchise or as a growth-stage company still earning its cost of capital.

Market-Implied Belief and Institutional Conclusion

For the current price of 80.19 to be justified on a fundamental basis, investors must assume either that the appropriate discount rate is at the higher end of the sensitivity range - closer to 10 percent or above - or that terminal margins will not sustain the 30 to 32 percent range implied by recent FCF performance, reverting instead toward the mid-twenties as competitive intensity in the identity security market intensifies. Neither assumption is unreasonable, but both appear somewhat pessimistic relative to the observable evidence: Okta holds a dominant position in workforce identity, is expanding into customer identity and privileged access management, carries minimal financial leverage, and is generating free cash flow at a rate that already exceeds what most of its peer group has achieved. The peer valuation discount of approximately 41 percent on EV/EBITDA is difficult to fully rationalize on fundamentals alone and may reflect lingering investor skepticism

following the company's 2023 security incident and its associated reputational overhang. On balance, the risk-reward at current levels appears asymmetric in favor of the long side: the Bear scenario implies only modest downside of approximately 3 to 4 percent, while the Base and Bull scenarios suggest 10 to 21 percent upside under capital assumptions that are neither aggressive nor implausible. The committee should weigh position sizing against the residual execution risk in margin sustainability and the pace of net revenue retention recovery, but the fundamental case for a discount to intrinsic value at current prices appears well-supported by the available evidence.

Valuation Bridge Commentary

<bridge_commentary>Anchor (model): the DCF is underwriting an implied Year 1 revenue growth of 9.3% and a 5-year revenue CAGR of 17.6%, with a short-term margin of 28.2% and an average future margin of 30.8% (discount rate 9.6%, terminal growth 2.3%). On this basis, the model produces a target price of 88.44 versus a current price of 80.19, implying the DCF screens modestly above market rather than dramatically dislocated.</bridge_commentary>

<bridge_commentary>Versus history, the key tension is growth: the historical 5-year revenue CAGR is 28.4%, well above the model's 17.6% 5-year CAGR and far above the 9.3% implied Year 1 growth. That is a clear de-risking of the top-line trajectory relative to what the company has delivered over the last five years, which would normally compress intrinsic value versus a "history-extended" growth profile. If the market is still embedding something closer to the historical growth regime, then the model should tend to screen low; the fact that the DCF still lands above the current price indicates that other parts of the model (notably cash generation/margins) are doing meaningful work to offset the lower growth path.</bridge_commentary>

<bridge_commentary>On cash conversion, the relationship between OCF margin, capex intensity, and FCF margin is supportive: historically, the company's latest OCF margin is 30.3% and capex intensity is low (capex is 2.4% of OCF), which mechanically allows FCF margin to sit close to OCF margin (latest FCF margin 29.6%). In other words, because reinvestment via capex is a small "take" from operating cash flow, most of OCF translates into free cash flow-raising the present value of cash flows even when revenue growth is moderated.</bridge_commentary>

<bridge_commentary>Relative to historical FCF margins, the model's margin posture looks broadly aligned to slightly conservative in the near term and not obviously aggressive longer term: the modeled short-term margin of 28.2% sits below the latest FCF margin of 29.6% but above the 5-year average FCF margin of 20.4%, while the modeled average future margin of 30.8% is roughly in line with (slightly above) the latest FCF margin and clearly above the 5-year average. Putting it together, the DCF's modest premium to the current price appears primarily margin-/cash-conversion-driven (i.e., assuming sustained ~30% cash flow margins with low capex drag), despite a growth profile that is materially below the historical 28.4% CAGR; the discount rate of 9.6% does not stand out as the dominant driver in the provided bridge. If the market is discounting durability of these elevated margins (or anticipating reversion toward the 5-year average FCF margin), that would explain why the stock trades below the model's intrinsic value despite the model already assuming a slower growth regime.</bridge_commentary>

CLASSIFICATION

Classification Label: UNDERVALUED

Classification Details (JSON)

Metric	Value
industry	Software - Infrastructure
company_type	HIGH_GROWTH
stage_of_cycle	Growth phase with decelerating revenue growth, improving margins and cash flow generation
valuation_method	Forward-looking DCF with EBITDA multiples cross-check
shares_outstanding	176887932.0
old_shares_outstanding	176524000
alpha	0.35
fade_period	9
estimated_revenue_growth_rate	0.1316
starting_revenue_annual	3183837690.0
short_term_margin_growth	-0.08527905480133019
long_term_margin_growth	0.07691189434702139
annual_revenue_ttm	2919000000
estimated_discount_rate	0.0785307160513544
terminal_growth_rate	0.025
appropriate_margin	0.296
appropriate_margin_mature	0.25225515559863676
appropriate_margin_reit	None

Metric	Value
weighted_free_cash_flow_margin_mature	0.19248727696648962
ttm_average_operating_cash_flow_margin	0.3031286091057409
ttm_average_free_cash_flow_margin	0.29599187862342957
five_year_div_cagr	None
avg_ocf_yield_to_ev	0.03857236121757542
cash	858000000
short_term_investments	1695000000
long_term_debt	72000000
margin_cap	0.33
margin_cap_mature	0.31231671554252194
margin_cap_high_growth	0.44347379239465573
margin_floor	0.2431910454701676
margin_floor_mature	0.17748727696648964
margin_trend_slope	0.011232818966734727
margin_trend_slope_mature	0.010157149147420625
revenue_floor	1385543076.7857141
revenue_floor_mature	2221275000.0
three_year_cagr_revenue	0.16250847699726267
five_year_cagr_revenue	0.17559613218628334
year1_growth_rate	0.1184
revenue_slope_abs_per_year	355118382.67178416
revenue_cap	8757000000.0

Metric	Value
qualitative_notes	OKTA is a cybersecurity identity platform company with 41 quarters of history. TTM revenue growth of ~11.8% and YoY quarterly growth of ~14.4% place it in HIGH GROWTH territory. Revenue is decelerating from 40-60% growth era toward teens. Free cash flow margins have improved dramatically from negative to ~29-33% TTM, indicating strong business model maturation. The company has very low long-term debt ($72M most recent quarter) after paying down convertible notes, and holds $858M cash plus $1.695B short-term investments. Peer comparison shows OKTA trading at significant discount (-41.4%) to cybersecurity peers on EV/EBITDA (32.5x vs 47.4x median), suggesting undervaluation. Appropriate margin uses TTM FCF margin of 33.1% as starting point, which is within 3% of weighted 12-quarter FCF margin of 26.7% - averaging gives ~29.9%, which is above the margin floor of 24.3%. Using the upper end per undervaluation guidance: 33.1%. Discount rate: base HIGH GROWTH ~10.6% (4.13% + 4.33% + beta adj ~2.1%), adjusted down 0.7pp for undervaluation = ~9.9%. Terminal growth: base HIGH GROWTH 7%, adjusted up 1pp for undervaluation = 8%. Fade period: base 10, adjusted -1 = 9. Revenue growth blended: (0.1184*0.7) + (0.1625*0.2) + (0.1756*0.1) = 0.0829 + 0.0325 + 0.0176 = 0.1330 approx 13.2%.
company_ev_ebitda	32.54609013
peer_median_ev_ebitda	47.39578901
valuation_risk_note	Company trades at UNDERVALUED valuation (-41.4% vs peer median)
valuation_tier	UNDERVALUED
valuation_premium_vs_peers	-0.4138147627470475
peer_count	5
peer_tickers	CRWD, CYBR, FTNT, PANW, ZS
company_ocf_yield	0.076511213
company_ev_cf	13.069979632352942
company_revenue_growth	0.118390805
peer_median_ocf_yield	0.036707227
peer_median_ev_cf	22.07373002393268
valuation_adjustment_applied	True
valuation_comparison_details	EV/EBITDA: 32.5x vs 47.4x peer median (-31.3%), OCF Yield: 7.65% vs 3.67% peer median (-52.0% valuation premium), EV/Cash Flow: 13.1x vs 22.1x peer median (-40.8%), Price/Book: 2.0x vs 12.0x peer median (-83.3%)
estimate_haircut	1.0
estimate_haircut_reason	haircut:none_implied_g=9.39%
estimate_implied_growth	0.0938742357811588
starting_revenue_source	DCF_year1_anchor:yahooquery:0y(endDate=2027-01-31)|haircut:none_implied_g=9.39%

Metric	Value
revenue_slope_cap_reason	no_cap:DEFAULT:tier<=$10000000000:mcap:none:max_g=45.00%
implied_year1_growth_from_slope	0.11153784119936848
projected_revenues	3183837690.0, 3485688315.27, 3742261346.7499995, 3960348423.51, 4145722438.7500005, 4303290351.71, 4437223077.72, 4551065894.83, 4647832289.38
weighted_free_cash_flow_margin	0.0
projected_revenue_cagr	0.048425175913941354
adjusted_shares_outstanding	176887932.0
shares_outstanding_source	notes_adjusted

APPENDIX: DETAILED COMPARISON

OKTA, Inc. (OKTA) - Institutional Valuation & Strategic Analysis

*Prepared for the Investment Review Committee	Confidential**
*Current Price: $80.19	Date of Analysis: 2025**

I. MANAGEMENT DISCUSSION & ANALYSIS: BUSINESS OVERVIEW AND KEY THEMES

Okta, Inc. is the leading independent identity security platform, operating a dual-architecture SaaS model - the Okta Platform (enterprise workforce identity) and Auth0 Platform (developer/customer identity) - serving over 7,000 integrated applications through its Okta Integration Network. The business generates approximately 98% of revenue from subscriptions, creating a highly predictable, recurring revenue stream with strong working capital dynamics via advance annual billing. Fiscal 2026 revenue reached $2,919 million (+12% YoY), operating income inflected to $149 million (5% margin) from a loss of $74 million (-3%) in FY2025, and net income reached $235 million - a dramatic three-year profitability arc from a ($355M) loss in FY2024. Operating cash flow surged to $884 million (+18% YoY), representing a 30.3% OCF margin, demonstrating the powerful cash conversion characteristics of the subscription model at scale.

Strategically, management is executing on four pillars: (1) continued enterprise deepening ($100K+ ACV customers grew from 4,800 to 5,100), (2) AI agent identity governance as a forward TAM expansion into non-human identity management, (3) deliberate margin improvement through operating leverage and the strategic shift of professional services to the partner ecosystem beginning FY2027, and (4) capital return via a $1 billion share repurchase program. The balance sheet is a fortress: $2,553 million in cash and short-term investments against $350 million in convertible notes maturing June 2026 (intended cash settlement), yielding net cash of approximately $2.2 billion post-settlement. The Dollar-Based Net Retention Rate of 106% (down from 111% in FY2024) reflects macro-driven elongation of sales cycles and budget scrutiny rather than competitive displacement, though the Microsoft Entra bundling threat and lingering reputational effects of the 2023 security incident remain material overhangs. The company's RPO of $4.827 billion (+15%) and current RPO of $2.513 billion (+12%) provide strong forward revenue visibility.

II. COMPARABLE COMPANY TABLE

Comparable Companies and Financial Ratios - Identity & Infrastructure Security Software

Ticker	Market Cap	EV/Revenue	EV/EBITDA	EV/Cash Flow	OCF Yield to EV	TTM Rev Change	TTM EBITDA Change
OKTA	$14.03B	3.96x	32.55x	13.07x	7.65%	+11.8%	+138.3%
CRWD	$99.35B	19.73x	478.55x	58.87x	1.70%	+21.7%	-36.3%
ZS	$21.82B	6.70x	96.82x	18.05x	5.54%	+23.9%	+25.2%
SAIL	$7.45B	7.03x	NM (neg)	348.63x	0.29%	+23.4%	NM (neg)
CYBR	NM	NM	NM	NM	NM	+36.0%	+90.6%

Notes: CRWD EV/EBITDA excluded from multiple-based analysis (near-zero EBITDA denominator; accounting distortion). SAIL EV/EBITDA and EV/CF excluded (negative EBITDA; near-zero OCF). CYBR excluded from all multiple-based analysis (missing EV/price data). ZS serves as the primary comparable anchor for EV/OCF analysis. OCF Yield = Current_Ncfo_yield (OCF/EV). OKTA's TTM EBITDA change of +138% reflects the profitability inflection from near-zero EBITDA base - not organic EBITDA compounding.

III. DISCOUNTED CASH FLOW MODEL: INPUTS AND FINAL OUTPUT

Model Architecture and Key Inputs

The DCF employs an 8-year explicit forecast period with a terminal value, using a post-adjustment discount rate of 9.57% (materially above the raw WACC of 7.85%, reflecting a deliberate patch for execution risk and growth

deceleration uncertainty). The terminal growth rate is 2.305%. The model anchors Year 1 revenue at $3.184 billion (consistent with analyst consensus of $3.483 billion for FY2028, implying ~9.4% growth from the FY2026 base of $2.919 billion).

Key Parameters - Final State (Post-Patch)

Parameter	Value
Year 1 Revenue	$3,184M
Year 8 Revenue	$3,502M (implied 4.84% 5-yr CAGR)
Short-Term Margin	28.2%
Average Future Margin	~30.8%
Terminal Margin Cap	31.7%
Discount Rate	9.57%
Terminal Growth Rate	2.305%
Fade Period	8 years
Alpha (Margin Convergence)	0.48

Revenue Path and Cash Flow Projections

Year	Revenue	FCF Margin	Projected CF	Discounted CF
1	$3,184M	28.2%	$899M	$820M
2	$3,338M	29.4%	$980M	$816M
3	$3,418M	30.5%	$1,042M	$792M
4	$3,460M	31.6%	$1,094M	$759M
5	$3,482M	31.7%	$1,104M	$699M
6	$3,493M	31.7%	$1,107M	$640M
7	$3,499M	31.7%	$1,109M	$585M
8	$3,502M	31.7%	$1,110M	$534M

Discounted Terminal Value: $7,519M Enterprise Value (DCF): $13,164M Equity Value (DCF): $15,645M (adding net cash ~$2,481M) DCF Target Price (Base): $88.44

Sensitivity Analysis Integration

The sensitivity context produces the following scenario range:

- Bear Case (DR ~10.6%, TGR ~1.8%): $77.36 - approximately 3.5% below current price
- Base Case (DR ~9.57%, TGR ~2.305%): $88.44 - approximately 10.3% above current price
- Bull Case (DR ~8.6%, TGR ~2.8%): $96.72 - approximately 20.6% above current price

The sensitivity analysis is instructive: the Bear case produces a price only modestly below current ($77.36 vs. $80.19), suggesting the stock is pricing in a near-Bear capital cost environment. The spread between Bear and Bull is approximately $19, or ~24% of current price - primarily capital-cost driven (200 bps discount rate range) rather than operationally driven. This is a critical observation: the market appears to be assigning a risk premium closer to the Bear discount rate than the Base, despite a balance sheet and cash flow profile that would not typically warrant such elevated risk premia for a company with $2.5B in net cash and 30% OCF margins.

Given the sensitivity analysis shows the Bear case is within 3.5% of current price (well within the 15% threshold), I adjust the final DCF price to blend the Base and a modest Bear weighting: 70% Base ($88.44) + 30% Bear ($77.36) = $85.02 adjusted DCF price. This reflects the tariff/macro uncertainty environment without fully capitulating to the Bear scenario.

IV. IS THE DCF GROWTH RATE REASONABLE?

The DCF's implied 5-year revenue CAGR of approximately 4.84% is materially below both the company's historical 5-year CAGR of 28.4% and the Street consensus for FY2028 of approximately 9.4% growth. This is a deliberately conservative posture, and the question is whether it is too conservative or appropriately disciplined.

Arguments for conservatism being appropriate: Revenue growth has decelerated from 40%+ in FY2022 to 15% in FY2025 to 12% in FY2026. NRR has compressed from 111% to 106% over two years, suggesting the expansion motion is moderating. The Microsoft Entra bundling threat creates structural ceiling risk on new seat growth in portions of the enterprise market. Sales cycle elongation in the current macro environment further pressures near-term bookings.

Arguments that the DCF is too conservative: Street consensus of $3.483 billion for FY2028 implies 9.4% growth - nearly double the model's implied trajectory. RPO growth of 15% and current RPO growth of 12% provide forward visibility that supports at least mid-single-digit to low-double-digit growth for the next 2-3 years. The AI agent identity TAM expansion is a real and potentially significant incremental growth driver not embedded in current consensus. The professional services shift to partners will actually improve reported subscription growth optics in FY2027.

Assessment: The DCF growth rate is conservative-to-very-conservative relative to observable near-term evidence. The model is stress-testing terminal assumptions rather than extrapolating momentum, which is intellectually defensible but may understate intrinsic value by 10-15% if growth sustains at 8-10% for 3-4 years before decelerating. The margin assumptions (31.7% terminal FCF margin) are more aggressive than the growth assumptions and do most of the valuation work - this inversion (conservative growth, ambitious margins) is the key model tension.

V. COMMENTARY ON COMPARABLE COMPANIES

Are Peers Growing Faster?

Yes, materially so. CRWD is growing TTM revenue at 21.7%, ZS at 23.9%, SAIL at 23.4%, and CYBR at 36.0% - all significantly above OKTA's 11.8%. This growth premium is the primary justification for the valuation premium these peers command. OKTA is the slowest-growing name in the peer set by a wide margin, which structurally limits the multiple it can command relative to peers.

Are These Reasonable Comparables?

ZS is the most analytically useful comparable - similar scale ($3.0B TTM revenue vs. OKTA's $2.9B), similar FCF margin (~29.1% vs. OKTA's ~29.6%), and both are profitable infrastructure security SaaS companies. The key differentiator is growth: ZS at 23.9% vs. OKTA at 11.8% - a 12 percentage point gap that justifies ZS's EV/OCF premium of 18.05x vs. OKTA's 13.07x.

CRWD is a category leader with a premium growth narrative and platform breadth that commands a structural multiple premium. Its EV/EBITDA of 478x is analytically unusable, and its EV/OCF of 58.87x reflects both growth premium and the market's willingness to pay for the dominant endpoint security franchise. CRWD is not a useful valuation anchor for OKTA given the 2x growth differential and category positioning differences.

SAIL has negative EBITDA and near-zero OCF margins (2% TTM OCF margin vs. OKTA's 30%), making it structurally incomparable on any profitability-based multiple. Its EV/Revenue of 7.03x despite lower margins and similar growth to OKTA is anomalous and likely reflects M&A speculation premium.

CYBR is excluded due to missing market data but is noted as a relevant strategic competitor in PAM - a market OKTA is entering via the Axiom acquisition.

Valuation Implication: OKTA's EV/OCF of 13.07x represents a 28% discount to ZS (18.05x) - the most comparable profitable peer. Given OKTA's slower growth (11.8% vs. 23.9%), a discount is warranted, but the magnitude of discount appears excessive given OKTA's superior OCF yield (7.65% vs. ZS's 5.54%), comparable FCF margins, and fortress balance sheet. A fair re-rating range of 15.0x-17.0x EV/OCF appears defensible if growth sustains at low-teens and margins hold.

VI. BEST VALUATION METHODOLOGY FOR THIS SECTOR

For identity security SaaS companies at OKTA's stage - profitable, high-FCF-margin, decelerating growth - the appropriate primary valuation methodology is EV/Operating Cash Flow (or EV/FCF), supplemented by DCF as a cross-check. EV/EBITDA is distorted across the peer set due to varying stock compensation treatment and profitability profiles. EV/Revenue is less useful given the wide margin dispersion across peers.

The DCF is appropriate here because OKTA generates substantial, predictable cash flows with low capex intensity, making the cash flow stream interpretable and modelable. However, the DCF is highly sensitive to terminal growth and discount rate assumptions - the 200 bps sensitivity range produces a 25% valuation swing - which limits its precision as a standalone tool.

The comparables framework anchored to EV/OCF provides a market-reality check that is less sensitive to long-duration assumptions and better reflects how institutional investors are actually pricing the peer group. Given the tariff/macro uncertainty environment, I modestly overweight comparables as the "market realism" anchor.

VII. ANALYSIS: COMPARING THE TWO VALUATION METHODS

Comparables-Derived Target: $92.75 The comparables analysis uses a probability-weighted EV/OCF framework (15.0x downside, 16.0x base, 17.0x upside) applied to TTM OCF of $884 million, with net cash of $2.481 billion added back. The probability-weighted result of $92.75 implies approximately 15.7% upside from current price. This is anchored to ZS as the primary comparable, applying a discount for OKTA's lower growth rate while recognizing comparable FCF margins and superior balance sheet quality.

DCF-Derived Target: $85.02 (Adjusted) The base DCF of $88.44 is adjusted to $85.02 by blending 70% base and 30% bear to reflect macro/tariff uncertainty and the sensitivity analysis showing the Bear case is within 3.5% of current price. The adjusted DCF implies approximately 6.0% upside from current price. The DCF's conservatism on growth (4.84% 5-year CAGR vs. Street consensus of 9.4%) is partially offset by ambitious terminal margin assumptions (31.7%), creating an internally balanced but potentially understated intrinsic value.

Reconciliation: The $7.73 gap between the comparables target ($92.75) and adjusted DCF target ($85.02) reflects the fundamental tension in OKTA's valuation: the comparables framework rewards the company's strong cash generation and balance sheet quality, while the DCF penalizes the growth deceleration through conservative revenue assumptions. Both methods agree the stock is modestly undervalued at $80.19, but disagree on the magnitude of undervaluation.

VIII. QUALITATIVE COMMENTARY

Profitability Inflection and Cash Generation Quality

Okta's three-year profitability arc - from ($355M) net loss in FY2024 to $235M net income in FY2026, with OCF expanding from $512M to $884M - represents one of the more compelling margin improvement stories in enterprise software. The 30.3% OCF margin is not a one-quarter phenomenon; it reflects structural improvements in the subscription model's operating leverage as R&D, S&M, and G&A all declined as percentages of revenue simultaneously. The near-zero capex intensity (capex is only 2.3% of OCF) means virtually all operating cash flow converts to free cash flow, a characteristic that distinguishes OKTA from peers like ZS (17% capex/OCF ratio) and CRWD (24% capex/OCF ratio). This cash generation quality, combined with the fortress balance sheet ($2.5B in liquidity, net cash post-2026 Notes settlement), argues for a meaningful re-rating from the current 13.07x EV/OCF multiple toward the 15-17x range that would be consistent with a profitable, cash-generative infrastructure software franchise.

The strategic pivot toward AI agent identity governance and non-human identity management deserves serious analytical weight. As enterprises deploy autonomous AI agents at scale, the identity governance problem becomes exponentially more complex - each AI agent requires authenticated, governed, auditable access to systems and data. Okta's 7,000+ integration network and its position as the independent identity layer (not tied to any single cloud vendor) creates a structural advantage in becoming the governance layer for AI agent identity. This is not a near-term revenue driver, but it represents a credible TAM expansion that could sustain growth at higher rates than the current 12% trajectory implies. The Axiom Security acquisition ($54M) for PAM capabilities is a small but strategically coherent step toward a more comprehensive identity security platform. Management's early investment in this area, combined with the company's existing enterprise relationships, positions OKTA favorably for the AI infrastructure buildout cycle.

Competitive and Reputational Overhang

The 2023 cybersecurity incident remains the most significant company-specific overhang, and its effects are difficult to fully quantify. The compression in NRR from 111% to 106% over two years is partially attributable to macro headwinds, but competitive displacement in head-to-head sales situations - where the incident is raised by procurement teams - is a real and ongoing drag. The Microsoft Entra bundling threat is structural: for organizations already deeply embedded in the Microsoft ecosystem, Entra ID provides "good enough" basic identity functionality at near-zero incremental cost. Okta's response - emphasizing multi-cloud independence, superior integration breadth, and advanced security features - is the right strategic positioning, but it requires continuous product investment and sales execution to defend against a competitor with effectively unlimited distribution leverage. The $1 billion buyback authorization at an average repurchase price of $90.27 (above current price) signals management's conviction in intrinsic value, but the pace of buybacks will be constrained by the upcoming $350M Notes settlement.

IX. MACRO AND INDUSTRY COMMENTARY

Identity Security: Structural Tailwinds and Cyclical Headwinds

The identity security market sits at the intersection of two powerful secular trends: the proliferation of cloud-based enterprise applications (driving the need for centralized identity governance) and the escalating sophistication of cyber threats (making identity the primary attack vector). Verizon's Data Breach Investigations Report consistently identifies compromised credentials as the leading cause of breaches, creating a regulatory and risk management imperative for enterprise identity investment that is relatively non-discretionary. This structural demand backdrop supports the thesis that OKTA's revenue growth, while decelerating, is unlikely to fall below mid-single digits absent a severe enterprise IT spending recession. The RPO growth of 15% and current RPO growth of 12% provide empirical support for this view - customers are signing multi-year contracts at a pace that exceeds current revenue recognition, providing a revenue floor for the next 12-24 months.

However, the cyclical headwinds are real and material. Enterprise IT budgets are under scrutiny as CFOs respond to macroeconomic uncertainty, tariff-driven cost inflation, and the need to fund AI infrastructure investments that compete for the same budget dollars as identity security. The elongation of sales cycles that management acknowledges is a direct consequence of this budget pressure. In a higher-rate environment, the cost of capital for enterprise software companies remains elevated, compressing the multiples that the market is willing to pay for long-duration cash flows. The identity security market is also experiencing a consolidation dynamic - platform vendors like Palo Alto Networks and CrowdStrike are expanding into adjacent identity capabilities, while Microsoft continues to bundle Entra ID more aggressively. This competitive intensification argues for a modest discount to historical peak multiples even as OKTA's fundamental cash generation improves.

Tariff and Trade Policy Impact Assessment

The current tariff regime (20%+ on goods from China, Canada, and Mexico) has limited direct impact on Okta as a pure-software company with no hardware manufacturing or physical supply chain exposure. However, the second-order effects are meaningful and should be reflected in the valuation framework. First, tariff-driven cost inflation increases enterprise operating costs, creating budget pressure that flows through to IT spending decisions and extends sales cycles - a dynamic already observable in OKTA's NRR compression and management commentary on elongated deal timelines. Second, the macroeconomic uncertainty created by trade policy volatility increases equity risk premia across the board, supporting a higher discount rate assumption in the DCF (the 9.57% rate used, vs. the raw WACC of 7.85%, partially reflects this). Third, if tariffs contribute to a broader economic slowdown or recession, enterprise software spending - while relatively defensive - is not immune to budget freezes and deal deferrals. For OKTA specifically, the SMB and mid-market customer segments are more exposed to tariff-driven economic stress than the large enterprise segment, which represents the majority of ACV. On balance, the tariff environment argues for maintaining the conservative Bear case weighting in the DCF blend and for not fully crediting the Bull case multiple in the comparables framework.

X. WEIGHTING SCHEDULE AND FINAL TARGET PRICE

Methodology Selection and Weighting Rationale

For a profitable, high-FCF-margin infrastructure SaaS company with a clear comparables set, both EV/OCF comparables and DCF are appropriate methodologies. I begin with a 50/50 weighting and adjust as follows:

The comparables framework ($92.75) is more grounded in observable market pricing and captures the re-rating potential from OKTA's improving cash generation profile. However, the peer set is imperfect - ZS is the only clean comparable, and its 2x growth premium over OKTA limits the precision of the multiple transfer.

The adjusted DCF ($85.02) is conservative on growth but uses a defensible discount rate and terminal margin assumption. The sensitivity analysis confirms the Bear case is close to current price, providing downside comfort. The DCF's conservatism on revenue growth (4.84% CAGR vs. 9.4% Street consensus) likely understates intrinsic value modestly.

Given: (a) the comparables framework provides a cleaner market-reality anchor in the current macro environment, (b) the DCF's growth conservatism likely understates intrinsic value relative to observable forward indicators (RPO, analyst consensus), and (c) tariff/macro uncertainty argues against fully crediting either method's upside scenario, I apply a 55% comparables / 45% DCF weighting.

Final Blended Target Price Calculation

Comparables target: $92.75 (weight: 55%) Adjusted DCF target: $85.02 (weight: 45%)

Blended target = (0.55 × $92.75) + (0.45 × $85.02) Blended target = $51.01 + $38.26 = $89.27

12-Month Target Price: $89.00 (rounded) Target Range: $77 - $99

Range Construction:

- Low end ($77): Reflects Bear DCF scenario ($77.36) - discount rate at ~10.6%, macro deterioration, NRR continues to compress toward 103-104%, growth decelerates to 7-8%
- Base ($89): Blended target as computed above
- High end ($99): Reflects Bull comparables scenario (17x EV/OCF) with growth re-acceleration toward 13-15% and NRR stabilization

Time Horizon Assessment

A 12-month horizon is appropriate and realistic. The stock has been trading in the $75-$100 range over the past several months, and the $89 target represents approximately 11% upside from current price - a reasonable expectation for a re-rating catalyst over 2-4 quarters as: (1) the 2026 Notes are settled in cash (removing the

overhang), (2) FY2027 results demonstrate margin sustainability at 30%+ OCF margins, (3) AI agent identity products move from early access to general availability, and (4) buyback activity provides a technical floor. The target is not aggressive relative to recent trading history and does not require multiple expansion to the ZS level - it simply requires OKTA to sustain its current cash generation profile.

Justification for Target vs. Current Price (11% Premium)

The 11% premium to current price is justified by three observable factors: (1) the stock's OCF yield of 7.65% is materially above the 10-year Treasury at 4.13%, providing a 352 bps spread that is wide for a company with OKTA's balance sheet quality and cash generation profile; (2) the Bear DCF scenario ($77.36) is only 3.5% below current price, creating an asymmetric risk/reward profile; and (3) the comparables framework consistently produces targets in the $89-$99 range using conservative multiples well below ZS's current EV/OCF. The primary assumption embedded in the target that differs from the market's current pricing is that OKTA's 30%+ OCF margin is durable - not a one-cycle phenomenon - and that the market will gradually re-rate the stock toward a multiple more consistent with its cash generation quality as the incident overhang fades and AI identity products gain traction.

Average OCF Yield Context (8-Quarter Average)

The current OCF yield of 7.65% is above the peer median (ZS at 5.54%, CRWD at 1.70%), reflecting OKTA's discount to peers. Over the past 8 quarters, OKTA's OCF yield has averaged in the 5-8% range as the company transitioned from negative to positive OCF. The current yield at the higher end of this range suggests the stock is pricing in above-average risk, consistent with the Bear-leaning discount rate implied by current pricing. A re-rating toward a 6.0-6.5% OCF yield (consistent with a 15-16x EV/OCF multiple) would be consistent with the $89-$93 target range.

XI. SUMMARY SCORECARD

Metric	Value	Assessment
Current Price	$80.19	Modest discount to fair value
Comparables Target (EV/OCF)	$92.75	15.7% upside
Adjusted DCF Target	$85.02	6.0% upside
Blended Target (55/45)	$89.27	11.3% upside
12-Month Target Range	$77 - $99	Asymmetric to upside
Bear Case	$77.36	-3.5% downside (limited)
Bull Case	$96.72	+20.6% upside

Metric	Value	Assessment
Current EV/OCF	13.07x	Discount to ZS (18.05x)
Target EV/OCF	~15.5x	Partial re-rating
OCF Yield	7.65%	352 bps above 10Y Treasury
Analyst Consensus FY2028 Revenue	$3.48B (+9.4%)	Above DCF model (conservative)

ANALYST_DERIVED_TARGET_PRICE: $89.27

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