okta

OKTA FIRST QUARTER AND FISCAL 2026 POSTED COMMENTARY

May 27, 2025

Okta is posting this prepared commentary, press release, and earnings presentation to its investor relations (IR) website to provide stockholders and analysts with additional detail prior to its quarterly earnings webcast. The webcast begins at 2:00 p.m. PT (5:00 p.m. ET) on May 27, 2025 and will include executive comments followed by Q&A. To access the webcast of the executive comments and Q&A session, visit the IR section of our website at investor.okta.com. A reconciliation of GAAP and non-GAAP results is provided in the tables following this Posted Commentary. Okta references a number of numeric or growth changes below. Unless otherwise noted, each such reference represents a year-over-year comparison.

TOP-LINE METRICS

Total revenue for the first quarter grew 12% to $688 million, driven by a 12% increase in subscription revenue. Subscription revenue represented 98% of our total revenue. International revenue grew 8% and represented 20% of our total revenue.

Remaining Performance Obligations (RPO) and Current RPO

RPO, or subscription backlog, grew 21% to $4.084 billion. The overall average contract term length is approximately 2.5 years.

Current RPO, which represents subscription backlog we expect to recognize as revenue over the next 12 months, grew 14% to $2.227 billion.

SELECT FINANCIAL REVIEW

Net Retention Rate

The dollar-based net retention rate for the trailing 12-month period was 106%. Recent pressure on the net retention rate primarily reflects macro-related pressures on the business. The net retention rate may fluctuate from quarter-to-quarter as the mix of new business, renewals, and upsells fluctuates.

okta

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

Profitability was better than expected due to the combination of revenue overperformance and our continued focus on spend efficiency measures, while investing for future growth and security initiatives.

Total expenses for the quarter were $504 million, an increase of 4% year-over-year. Operating profit margin was 27%, compared to 22% in Q1 last year.

Total headcount at the end of Q1 was approximately 5,750.

Cash Flow & Balance Sheet

Q1 free cash flow was $238 million, yielding a free cash flow margin of 35%. Free cash flow was inclusive of a cash impact of approximately $9 million related to the organizational restructuring paid out in the first quarter. Free cash flow was better than expected, driven by improved operating profitability and strong collections.

The balance sheet remains strong, anchored by $2.725 billion in cash, cash equivalents and short-term investments. Our cash, cash equivalents and short-term investments position, net of remaining convertible debt, is $1.865 billion.

Convertible Debt Summary

In September 2019, we issued the 2025 Notes due September 1, 2025 with a principal amount of $1,060 million. As of April 30, 2025, $510 million principal amount of the 2025 Notes remain outstanding. In June 2020, we issued the 2026 Notes due June 15, 2026 with a principal amount of $1,150 million. As of April 30, 2025, $350 million principal amount of the 2026 Notes remain outstanding.

The company did not repurchase any of the outstanding debt in the first quarter. We will be opportunistic with debt repurchases going forward and regularly evaluate our capital structure and capital allocation priorities. Okta currently plans to use its cash to pay off the remaining 2025 Notes upon maturity in September 2025.

CUSTOMERS AND CUSTOMER SUCCESS

We continue to see strong growth with large customers for both workforce and customer identity. In Q1, we added 70 customers with $100,000 plus in ACV. Our total base of $100,000 plus ACV customers grew 7% to 4,870, and represents over 80% of total ACV.

Our total base of $1 million plus ACV customers grew 20% to 480. The $1 million plus cohort represents over $1 billion in total ACV.

A few notable examples of new customer wins and upsells in Q1, which come from a wide range of industries.

- ❖ New Auth0: A Global 2000 energy company was a new Auth0 win this quarter. The company will deploy Auth0 globally across its application landscape to modernize and standardize identity management. Auth0's flexibility, extensibility, and vendor neutrality to seamlessly integrate with the company's diverse technology stack were key factors in the company's decision.

- ❖ New Workforce: A US government entity was an Okta Workforce win this quarter. The entity's current lifecycle management solution was not operational and tasks were being conducted manually. The entity purchased Okta's array of FedRAMP compliant solutions, including SSO, MFA, Lifecycle Management and Workflows.

- ❖ New Workforce and Auth0: A European telecommunications company purchased Okta Workforce Identity and Auth0 this quarter. Previously, the company did not have an unified identity strategy, resulting in a fragmented identity management across various departments and a high volume of support tickets and password issues. With Okta Workforce and Auth0, the company's 20,000+ employees and contractors will have a more seamless and secure login experience.

- ❖ Workforce Upsell, OPA: A US-based grocery store chain is investing further into Okta's unified security platform with Okta Privileged Access (OPA). OPA was selected for its secure-by-default solution. The company will be able to manage user and admin access with fast time to value, and achieve cloud-native protection for its modern infrastructure with OPA.

- ❖ Workforce Upsell, OIG: A Global 2000 insurance company and existing Okta customer identity customer expanded its investment with Okta with Okta Identity Governance. The company decided to phase out an on-prem incumbent in favor of OIG for its ease of implementation and ability to standardize all governance use cases on a single platform, automate workflows within Okta and other apps, and manage access requests.

- ❖ Workforce Upsell, ISPM, ITP, ODA: A state utility provider and existing Workforce customer expanded its investment in Okta with Identity Security Posture Management (ISPM), Identity Threat Protection (ITP) and Okta Device Access (ODA) this quarter. The company is deploying the new technology to strengthen its Zero Trust initiative.
- ❖ Cross-sell: A Global 2000 technology reseller and current Workforce Identity customer was a new Auth0 win this quarter. The company will replace Microsoft for improved user experience. Auth0 will provide a centralized customer identity solution across several business units in order to reduce complexity and security risks.

SHOWCASE HIGHLIGHTS

In early April we hosted Showcase, which is our biggest event outside of Oktane to highlight product innovation. Whether securing an organization's workforce, customers, or non-human identities, our newest advancements empower organizations to stay ahead of threats with smarter, more integrated solutions that are designed to streamline access management and deliver seamless, secure experiences. The key themes this year were how Okta is protecting non-human identities, or NHIs, for workforce customers and how Auth0 is helping customers secure AI agents. Hear insights and observations directly from our CEO, Todd McKinnon, as well as Okta product leaders.

Visit Showcase on demand for a full replay of the event. A summary of the product announcements and updates can be found here.

FINANCIAL OUTLOOK

We continue to take a prudent approach to forward guidance that factors in our go-to-market specialization that was rolled out in Q1 of FY26. Additionally, we're now factoring in potential risks related to the uncertain economic environment for the remainder of FY26.

For the second quarter of FY26, we expect:

- Total revenue of $710 million to $712 million, representing a growth rate of 10%;
- Current RPO of $2.200 billion to $2.205 billion, representing a growth rate of 10% to 11%;
- Non-GAAP operating income of $183 million to $185 million, which yields a non-GAAP operating margin of 26%;

- Non-GAAP diluted net income per share of $0.83 to $0.84, assuming diluted weighted-average shares outstanding of approximately 186 million; and
- Free cash flow margin of approximately 19%,

For FY26,

- We continue to expect revenue of $2.850 billion to $2.860 billion, representing a growth rate of 9% to 10%;
- We are raising our outlook for non-GAAP operating income and now expect non-GAAP operating income of $710 million to $720 million, which yields a non-GAAP operating margin of 25%;
- Non-GAAP diluted net income per share is now expected to be $3.23 to $3.28, assuming diluted weighted-average shares outstanding of approximately 186 million; and
- We are raising our free cash flow margin outlook for FY26 to approximately 27%.

Q2 and FY26 outlook assume a static 26% non-GAAP effective tax rate.

FORWARD-LOOKING STATEMENTS

This prepared commentary contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our financial outlook, business strategy and plans, market trends and market size, opportunities and positioning. These forward-looking statements are based on current expectations, estimates, forecasts and projections. Words such as "expect," "anticipate," "should," "believe," "hope," "target," "project," "goals," "estimate," "potential," "predict," "may," "will," "might," "could," "intend," "shall" and variations of these terms and similar expressions are intended to identify these forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond our control. For example, macroeconomic conditions have in the past and could in the future reduce demand for our solutions; we and our third-party service providers have in the past and could in the future experience cybersecurity incidents; we may be unable to manage or sustain our revenue growth and profitability; our financial resources may be insufficient to effectively compete in our market; we may be unable to attract new customers, or retain or sell additional solutions to existing customers; we may fail to maintain strategic partnerships to promote or enhance our solutions; we may experience challenges successfully expanding our existing marketing and sales capabilities, including further specializing our go-to-market organization; customer growth has slowed in recent periods and could continue to decelerate in the future; we could experience interruptions or performance problems associated with our technology, including a service outage; and we and our third-party service providers have failed, or were perceived as having failed, to fully comply with various privacy and security provisions to which we are subject, and similar incidents could occur in the future. Further information on potential factors that could affect our financial results is included in our most recent Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. The forward-looking statements included in this prepared commentary represent our views only as of the date of this prepared commentary and we assume no obligation and do not intend to update these forward-looking statements.

NON-GAAP RECONCILIATION

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

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

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

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

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

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

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

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

okta

Non-GAAP Operating Income and Non-GAAP Operating Margin

	Three Months Ended April 30,	
	2025	2024
Operating income (loss)	$ 39	$ (47)
Add:		
Stock-based compensation expense	128	151
Non-cash charitable contributions	—	3
Amortization of acquired intangibles	17	19
Legal settlements and related expenses	—	7
Non-GAAP operating income	$ 184	$ 133
Operating margin	6 %	(8)%
Non-GAAP operating margin	27 %	22 %

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

	Three Months Ended April 30,	
	2025	2024
Net income (loss)	$ 62	$ (40)
Add:		
Stock-based compensation expense	128	151
Non-cash charitable contributions	—	3
Amortization of acquired intangibles	17	19
Amortization of debt issuance costs	1	—
Legal settlements and related expenses	—	7
Tax adjustment	(50)	(23)
Non-GAAP net income	$ 158	$ 117
Net margin	9 %	(7)%
Non-GAAP net margin	23 %	19 %
Weighted-average shares used to compute net income (loss) per share, basic	174,172	167,465
Non-GAAP weighted-average effect of potentially dilutive securities	9,004	12,962
Non-GAAP weighted-average shares used to compute non-GAAP net income per share, diluted	183,176	180,427
Net income (loss) per share, diluted	$ 0.35	$ (0.24)
Non-GAAP net income per share, diluted	$ 0.86	$ 0.65

Free Cash Flow and Free Cash Flow Margin

	Three Months Ended April 30,	
	2025	2024
Net cash provided by operating activities	$ 241	$ 219
Less:		
Purchases of property and equipment	(1)	(1)
Capitalized software	(2)	(4)
Free cash flow	$ 238	$ 214
Net cash used in investing activities	$ (120)	$ (194)
Net cash used in financing activities	$ (45)	$ (37)
Operating cash flow margin	35 %	36 %
Free cash flow margin	35 %	35 %