

Okta Inc

4Q Preview: 4Q likely a mixed bag, expect growth headwinds to persist through FY25

Maintain Rating: UNDERPERFORM | PO: 64.00 USD | Price: 83.40 USD

What to expect heading into 4Q24 earnings

Okta is scheduled to report earnings on February 28, and we believe that a mixed quarter is likely in store. We forecast cRPO growth of 10.1% versus the Street's 11.5% as we believe impacts from Okta's most recent breach are underappreciated by the Street. [Per channel partners, Okta's business as slowed significantly](#) (see our 14 February 2024 Cyber Security report), especially in the Enterprise segment, with customers exiting Okta pipelines in favor of Microsoft, which has been aggressively marketing around the breach. On the other hand, we are more positive than the Street on FCFm (19% versus Consensus 17%), as we believe that recent cost restructuring should support cash generation improvements. However, the stock still trades on growth momentum, and we believe that FY25 growth will remain depressed. We maintain our Underperform rating and \$64 PO.

Why customer growth is paramount in FY25

The key metric to watch for FY25 is new customer growth. New customer growth has been a challenge for Okta since 2Q22, when the company struggled with the integration of Auth0, leading to high salesforce attrition. As a result, Okta leaned more heavily on deriving net new cRPO from the existing customer base versus new customers (89%/11% versus historical 75%/25%). As the macro environment took a turn for the worse in FY23, Okta again leaned heavily on the existing customer base for growth, which accounted for 95% of net new cRPO. Macro trends, coupled with internal execution missteps, continued to pressure net new customer growth through FY24, with the 3Q24 contribution from the existing base hitting an all-time high of 99%. Heading into FY25, we flag two risks within the existing customer base: 1) product saturation, as roughly half of net new cRPO for existing customers comes from products versus seat expansion, and Okta has leaned heavily on the existing customer base for two years in a row, and 2) pausing R&D efforts on new products, which will further push out incremental growth opportunities. Positively, we are less concerned with Okta's churn rate, as identity tends to be sticky; however, Okta's growth for CY25 will be reliant on reaccelerating growth from net new customers, and the impact of the most recent breach will likely be a headwind to new customers at least through 1H25. We model FY25 cRPO growth of 8.7% versus Street's 9.5%, as we believe that these risks are underappreciated by the Street.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.46)	(0.04)	1.58	2.20	2.43
GAAP EPS	(5.74)	(5.16)	(2.42)	(1.92)	(1.84)
EPS Change (YoY)	NM	91.3%	NM	39.2%	10.5%
Consensus EPS (Bloomberg)			1.48	1.97	2.36
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	NM	NM	54.4x	39.1x	35.4x
EV / EBITDA*	428.9x	139.5x	39.2x	28.5x	25.2x
Free Cash Flow Yield*	0.6%	0.5%	3.2%	3.7%	4.6%

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Stock Data

Price	83.40 USD
Price Objective	64.00 USD
Date Established	13-Feb-2023
Investment Opinion	C-3-9
52-Week Range	65.04 USD - 92.38 USD
Mkt Val (mn) / Shares Out (mn)	13,581 USD / 158.0
Free Float	98.2%
Average Daily Value (mn)	131.82 USD
BofA Ticker / Exchange	OKTA / NAS
Bloomberg / Reuters	OKTA US / OKTA.OQ
ROE (2024E)	4.7%
Net Dbt to Eqty (Jan-2023A)	38.2%
ESGMeter™	Medium

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cRPO: current remaining performance obligations

FCFm: free cash flow margin

PO: price objective

* For full definitions of *IQmethod*SM measures, see page 6.

iQprofileSM Okta Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-1.2%	-0.1%	2.1%	3.6%	3.9%
Return on Equity	-2.1%	-0.1%	4.7%	6.7%	7.2%
Operating Margin	-5.7%	-0.5%	12.7%	18.9%	20.3%
Free Cash Flow	87	65	437	499	623

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	1.7x	1.3x	1.4x
Asset Replacement Ratio	0.2x	0.2x	0.2x	0.6x	1.0x
Tax Rate	NM	12,641.0%	213.9%	164.6%	156.0%
Net Debt-to-Equity Ratio	29.8%	38.2%	15.9%	7.0%	-2.8%
Interest Cover	-0.8x	-0.9x	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,300	1,858	2,245	2,462	2,700
% Change	55.6%	42.9%	20.8%	9.7%	9.6%
Gross Profit	1,001	1,442	1,802	1,983	2,189
% Change	53.1%	44.0%	24.9%	10.0%	10.4%
EBITDA	34	104	371	509	577
% Change	-27.6%	207.5%	255.6%	37.4%	13.3%
Net Interest & Other Income	4	16	70	80	80
Net Income (Adjusted)	(68)	(7)	264	404	464
% Change	NM	89.5%	NM	52.7%	14.9%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(849)	(833)	(404)	(352)	(351)
Depreciation & Amortization	108	114	86	44	30
Change in Working Capital	141	(7)	46	79	159
Deferred Taxation Charge	57	84	76	0	0
Other Adjustments, Net	647	728	654	756	816
Capital Expenditure	(17)	(21)	(21)	(27)	(30)
Free Cash Flow	87	65	437	499	623
% Change	-21.0%	-25.7%	571.9%	14.3%	24.8%
Share / Issue Repurchase	89	48	19	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	(803)	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	260	264	514	1,013	1,636
Trade Receivables	398	481	495	595	755
Other Current Assets	2,383	2,484	1,994	2,134	2,274
Property, Plant & Equipment	65	59	34	17	17
Other Non-Current Assets	6,100	6,019	6,036	6,122	6,106
Total Assets	9,206	9,307	9,074	9,882	10,788
Short-Term Debt	16	0	0	0	0
Other Current Liabilities	1,227	1,465	1,783	2,184	2,620
Long-Term Debt	2,009	2,353	1,442	1,446	1,451
Other Non-Current Liabilities	32	23	28	28	28
Total Liabilities	3,284	3,841	3,253	3,658	4,099
Total Equity	5,922	5,466	5,821	6,225	6,689
Total Equity & Liabilities	9,206	9,307	9,074	9,882	10,788

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Cyber Security

Company Description

Okta is a cloud-based Identity & Access Management (IAM) provider that offers products dedicated to securing and managing user authentication and access, addressing an \$80bn market across both Workforce Identity and Customer Identity. The company has a Software-as-a-Service (SaaS) revenue model, and currently has over 17,500 customers.

Investment Rationale

We have an Underperform rating on Okta as we believe that the current valuation prices in aggressive Customer Identity revenue growth that is nearly double the growth rate for the market, however the Customer Identity market is unproven with multiple substitute products which, in our view, could slow Okta's Customer Identity growth.

Stock Data

Average Daily Volume 1,529,247

Quarterly Earnings Estimates

	2023	2024
Q1	-0.27A	0.24A
Q2	-0.10A	0.34E
Q3	0A	0.48E
Q4	0.30A	0.51E

BofA Expectations versus Consensus

Exhibit 1: BofA versus Consensus

We model lower cRPO growth versus Street due to headwinds from Okta's most recent breach

	F4Q24 Expectations			F1Q25 Expectations			FY25 Expectations		
	BofA	Consensus	Delta	BofA	Consensus	Delta	BofA	Consensus	Delta
cRPO	\$1,652.8	\$1,878.0	-12.0%	\$1,705.7	\$1,862.5	-8.4%	\$1,854.0	\$2,058.0	-9.9%
YoY growth (%)	10.1%	11.5%		8.7%	9.5%		8.7%	9.6%	
Revenue	\$586.9	\$586.5	0.1%	\$595.7	\$532,050.0	-99.9%	\$2,462.3	\$2,482.8	-0.8%
YoY growth (%)	15.1%	15.0%		15.0%	27.0%		9.7%	10.3%	
Gross margin (%)	81.3%	80.7%	0.6bps	80.8%	80.1%	0.7bps	80.5%	80.2%	0.4bps
Operating margin (%)	17.7%	17.6%	0.1bps	18.5%	14.8%	3.7bps	18.9%	17.0%	1.9bps
EPS	\$0.51	\$0.51	0.2%	\$0.53	\$0.59	-9.8%	\$2.20	\$1.97	11.6%
Free cash flow	\$113.73	\$103.62	9.8%	\$33.42	\$129.99	-74.3%	\$499.38	\$481.80	3.6%
FCF margin (%)	19.4%	17.4%		5.6%	20.7%		20.3%	19.9%	

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Partner Commentary – IAM

"Identity was very strong overall in 4Q. Especially with the types of attacks with MFA and how cyber may change over the next few years, it seems that our customers are focused on loading up on identity security solutions. This is one of the areas that we saw especially strong spending from 2Q through 4Q. Some more significant budget dollars."

– **North American Partner**

"In 4Q, SMBs and mid-market have been consistent throughout the year, but seeing more cautious behavior at enterprises for Okta." – **North American Partner**

"1H23 was strong for Okta but 2H23 was weaker following some of the public breaches. Forecasting a weaker 2024 than 2023 for Okta due to the breaches. Expecting longer sales cycles and more explanations needed." – **North American Partner**

"We've seen Microsoft pick up the slack from lost Okta deals. Microsoft has done an aggressive campaign to displace Okta following the recent breaches." – **North American Partner**

Price objective basis & risk

Okta Inc (OKTA)

Our PO of \$64 is based on 5x FY25E EV/Sales. We note this multiple is at a discount to high growth cybersecurity peers that trade at 8-12x, yet we believe this is warranted giving potential headwinds to revenue growth and the operational challenges the company currently faces.

Upside risks to our PO are 1) higher growth rates on greater adoption of Okta's Customer Identity products, 2) higher growth rates if Okta's products warrant a premium compared to other IAM vendors and 3) margin uplift from a more efficient sales force.

Downside risks to our PO are 1) continued price erosion of Okta's core products due to more intense competition, 2) purchase pushouts of additional products should customer budgets come down and 3) lower margin ramp if execution issues worsen.

Analyst Certification

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US - Telecom and Data Networking Equipment Coverage Cluster

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BUY				
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	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
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	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
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	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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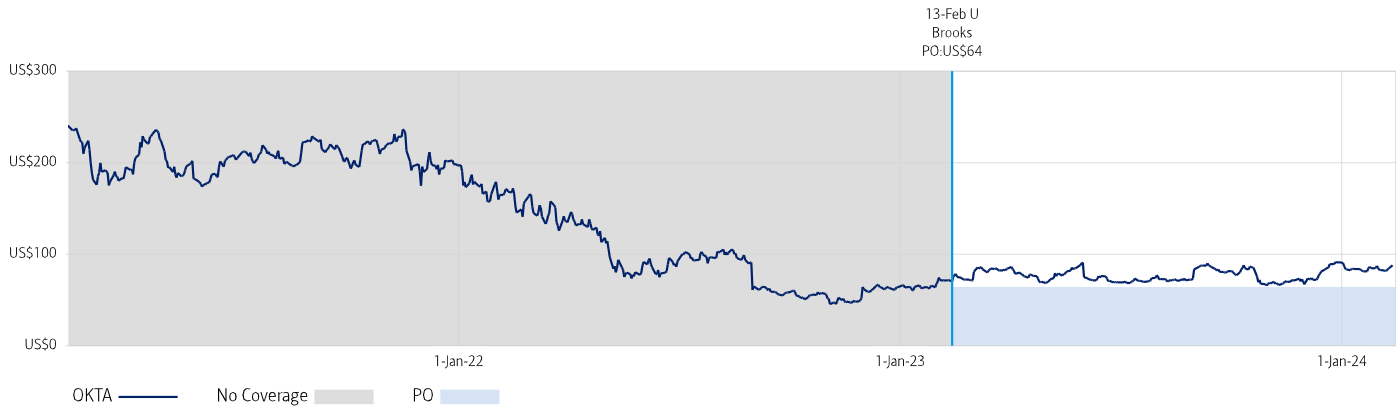
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Okta Inc (OKTA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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