Okta, Inc. (OKTA)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/28/20):</th>
<th>183.92</th>
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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>197 - 69</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>26,642</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>143.7</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>112.5</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>2.15</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
</tr>
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| Price Target ($) :   | 190 |
| L-Term Rev. Gr Rate Est: | Q1 (0.19)A (0.07)A (0.05)E |
| L-Term EPS Gr Rate Est: | Q2 (0.05)A (0.02)E 0.01E |
| Debt/Cap:            | 100.0% |
| ROE:                 | NM |
| Total                | FY P/E |

<table>
<thead>
<tr>
<th>FY Jan</th>
<th>2020A</th>
<th>2021E</th>
<th>2022E</th>
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<tbody>
<tr>
<td>Revenue (Mil)</td>
<td>586.1</td>
<td>778.4</td>
<td>1,011.6</td>
</tr>
<tr>
<td>% Growth</td>
<td>46.8%</td>
<td>32.8%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>-8.3%</td>
<td>-4.2%</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>

Company Description

Founded in 2009 by Todd McKinnon and Frederick Kerrest, the Company’s mission was to create a seamless consumer experience that securely connected users with applications. The Company has a straight-forward product set anchored by Single Sign On (SSO) and Universal Directory, which constitute a majority of the revenue. Okta wins business due to its favorable user experience, fast time to value, and pre-built integrations with thousands of software vendors that allows for automation and streamlined workflows. Okta benefits from multiple secular tailwinds, including the transition to SaaS applications and cloud computing, demand for better user experiences, and a need for tighter security around identity and access.

Competition

The Identity and Access Management market is one of the more competitive markets in security and infrastructure software. Most IAM vendors have a cloud directory, SSO, MFA, an automation tool, and an API gateway. However, the legacy IAM providers lacked innovation for too long and allowed next-gen vendors such as Okta, Centrify, and Microsoft to capture the new market being formed by SaaS and IaaS usage. How the competitors differentiate themselves varies, with some focusing on ease of use (Okta, Microsoft) and some on security (Centrify). Net-net, this is a large and growing market which should support multiple winners. Okta was first to market and executed impressively, creating a first mover advantage and agnostic stance.

Investment Thesis

Who is Okta? Founded in 2009 by Todd McKinnon and Frederick Kerrest, the company’s mission was to create a seamless consumer experience that securely connected users with applications. The company has a straight-forward product set anchored by Single Sign On (SSO) and Universal Directory, which constitute a majority of the revenue. Okta wins business due to its favorable user experience, fast time to value, and pre-built integrations with thousands of software vendors that allows for automation and streamlined workflows. Okta benefits from multiple secular tailwinds, including the transition to SaaS applications and cloud computing, demand for better user experiences, and a need for tighter security around identity and access.

Increasing TAM. We are optimistic on the expansion of identity and access management, specifically a growing importance for security and vendors finding ways to increase business value for customers. For Okta, we have already seen premium offerings for SSO, MFA, and Lifecycle Management that deploy advanced machine learning and functionality to streamline the user experience and unlock value for organizations. We think other vendors will continue to follow suit and address adjacent use cases for identity management.

Sound execution. Management deserves credit for identifying a market need (arguably ahead of its actual existence), building it for the cloud and executing admirably. We think they deserve some benefit of the doubt for understanding market trends and being able to create solutions to address customer needs.

Cloud tailwind. Okta is benefiting from the rise of SaaS usage which is likely still in the early innings. As organizations continue to decentralize their compute needs, Okta’s ability to securely create connections between users and applications becomes more applicable. We expect the cloud computing trend to continue and for Okta to provide solutions that let customers realize the expected value from the transition.

Valuation. Our price target of $190 is supported by a DCF analysis and implies a CY21E EV/Sales multiple of ~27.0x. Okta’s multiple is above the median for high-growth SaaS peers (~18.5x EV/Sales), which we believe is justified by strong strategic positioning and
continued opportunities for growth. We believe Okta will have to meaningfully exceed current guidance/street expectations for revenue growth to drive the stock higher.

**Risks & Caveats**

**Increasing competition.** We think the identity and access management market is strategic, evolving, large and growing, all characteristics that would attract legitimate competition. Microsoft has a legacy presence in the market and could sacrifice price for market adoption while the IaaS providers, such as Amazon and Google, are already positioning their identity offerings in cloud use cases. While Okta has fought off the competition thus far, we become slightly wary when the infinitely resourced hyper-scale compute companies get involved.

**Lack of technological differentiation over time.** Okta currently enjoys a first mover advantage for certain solutions such as single sign-on and cloud directory, but we believe these products are likely to become somewhat commoditized over time. Okta’s advantage has allowed the Company to create more native integrations to third-party applications, but we imagine competitors could create similar connections with sufficient time and capital. Therefore, Okta will need to find ways to stay ahead of the competition, some of which may not be clear to the market or management at the time of writing.
Appendix - Important Disclosures and Analyst Certification

Robert W. Baird & Co. Incorporated makes a market in the securities of OKTA.

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