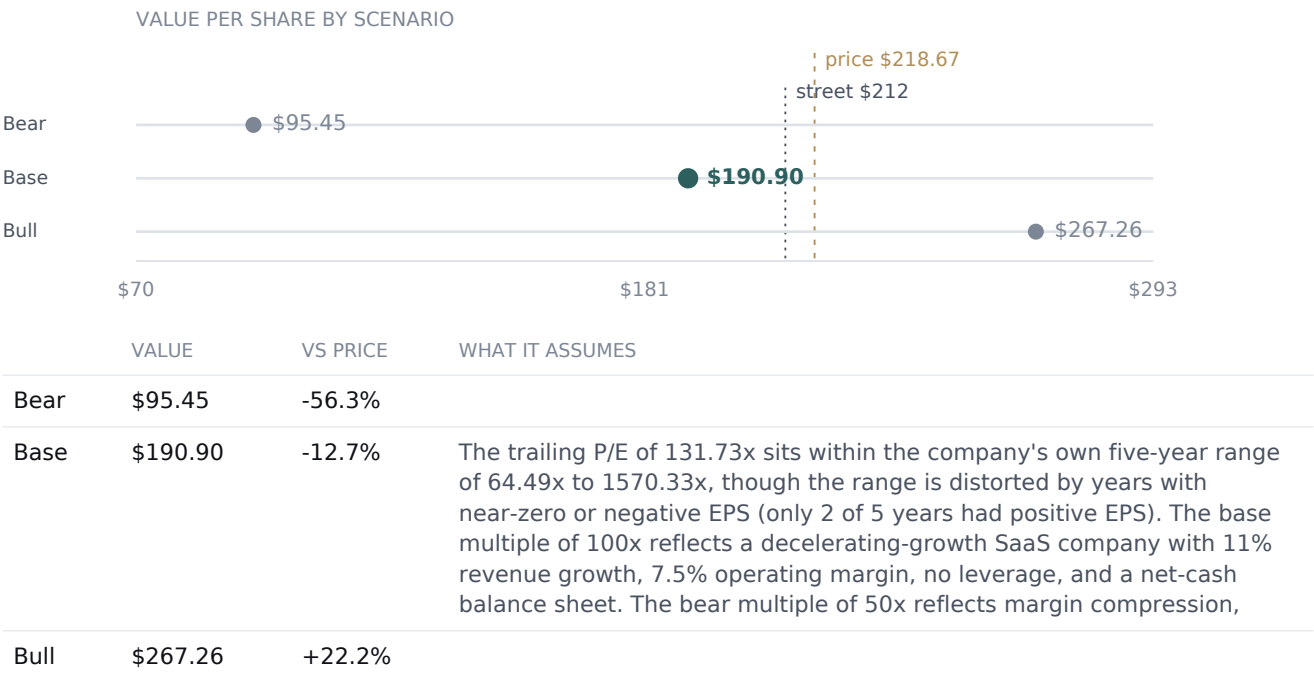


EQUITY RESEARCH / OKTA

Okta Inc

SHORT CANDIDATE · historical study through 2026-10-06 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$218.67	\$190.90	-12.7%	\$186.13	n/a	131.7x



STREET CHECK

Street target **\$212** (-2.9% vs price) · 0 buy / 0 hold / 0 sell · forward P/E 54.3x · EPS estimates \$3.44 this year, \$3.67 next

Our base case is **0.90x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Okta trades at 131.73x trailing diluted EPS (\$1.66 TTM), a multiple that embeds a growth reacceleration the filings do not support. Revenue growth has decelerated from a 28% five-year CAGR to 11.8% last fiscal year and 10.9% year-to-date, with management guiding 10-11% for FY27. Reported GAAP EPS is structurally constrained by recurring share-based compensation of \$503M TTM (16.4% of revenue) and intangible amortization of \$85M TTM, costs management excludes from non-GAAP measures but cannot exclude from GAAP EPS. A base-case multiple of 100x on forecast EPS of \$1.91 yields \$190.90, roughly 13% below the \$218.67 price. The probability-weighted value of \$186.13 is 14.9% below the price. The market's premium reflects the AI-agent identity narrative rather than delivered revenue, and the gap between the 131.73x trailing multiple and a 100x base multiple represents the compression risk if growth stays at 10-11% and SBC dilution persists.

What the market may be missing

The market prices Okta at 131.73x trailing P/E, implying continued high growth or a structural re-rating for AI-agent identity. The filings show revenue growth decelerating to 10-11% with management guiding 10-11% for FY27, and reported EPS growth is constrained by \$503M TTM SBC (16.4% of revenue) that management excludes from non-GAAP EPS but cannot exclude from GAAP EPS. The market may be overpricing the AI-agent narrative while underpricing the risk that reported EPS does not sustain the implied growth. The company's own five-year P/E range (64.49x to 1570.33x) is distorted by years with near-zero or negative EPS, making the current 131.73x unreliable as a fair-value anchor.

Why the opportunity exists

A narrative overshoot. The market prices Okta at 131.73x trailing P/E, a premium that reflects the AI-agent identity narrative rather than delivered revenue. Okta for AI Agents, Auth0 for AI Agents, and Cross App Access are in early access with no confirmed revenue contribution. The market appears to be pricing in a structural re-rating for AI-agent identity governance, but the filings show revenue growth decelerating to 10-11% and reported EPS constrained by recurring SBC. The gap between the 131.73x trailing multiple and the 100x base multiple represents the narrative premium that could compress if AI-agent products remain immaterial or if growth stays at 10-11%. Evidence: Fact sheet: trailing P/E 131.73x, revenue growth 11.84% last year, 10.88% YTD. Business read: 'Okta for AI Agents, Auth0 for AI Agents, and Cross App Access are in early access.' Management guides FY27 revenue growth of 10-11%. SBC TTM \$503M (16.4% of revenue) is a recurring cost excluded from non-GAAP EPS but not from GAAP EPS.

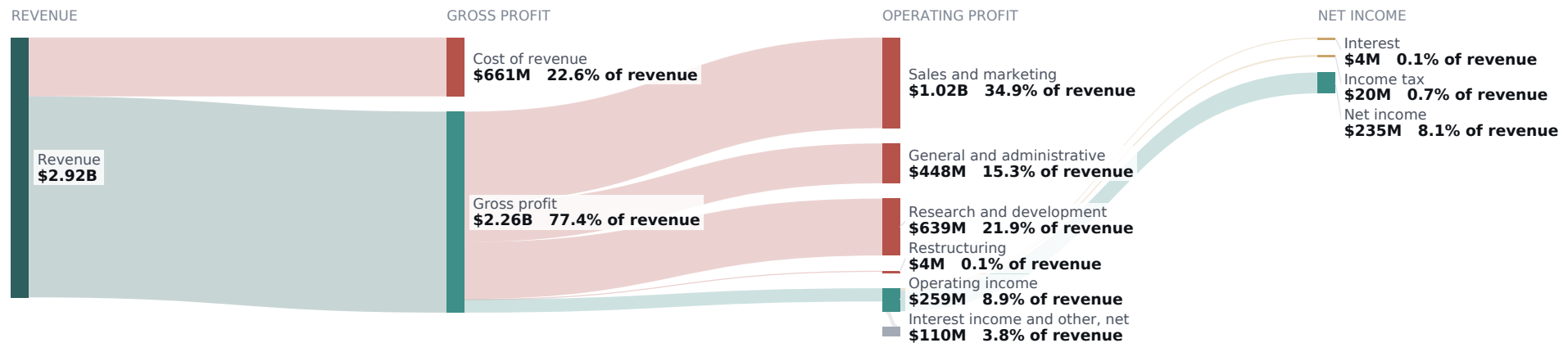
Since our last note

Thesis weakened against our note of 2026-10-04 (investigate short). The shares have moved +3.4% since. Guidance versus delivery: Total revenue above; Non-GAAP free cash flow above; Total revenue below. Management's guidance-versus-delivery record is difficult to assess from the supplied data because the guidance_vs_delivery comparisons appear to match FY26 actuals against FY27 guidance rather than tracking actual delivery against prior guidance. Q2 FY27 revenue of \$805M (+11% YoY) is consistent with the 10-11% FY27 guidance. Management takes a prudent approach, guiding 10-11% for FY27 with a ~1pp headwind from the professional services shift to partners. The guidance is internally consistent and management has not missed prior guidance in the available data. However, the prior memo's extreme 35x base multiple was not supported by the filings, suggesting the prior thesis overstated the compression risk. Management credibility is adequate but the prior memo's base case was too extreme.

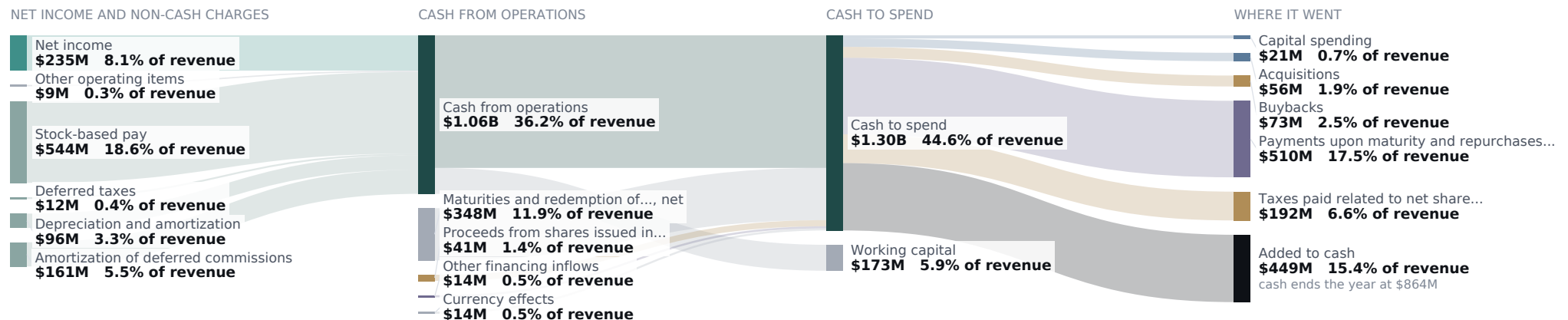
Follow the money: fiscal 2026

Of every \$100 of revenue, \$23 went to cost of revenue, \$72 to operating costs and \$0.8 to interest and tax, and \$8.1 became net income. Operations turned that into \$30 of cash; \$0.3 went to capital spending and \$2.5 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 1.8 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2026-01-31, XBRL accession 0001660134-26-000020. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Okta is the leading independent identity partner, providing cloud-based SaaS identity solutions (Okta Platform for workforce identity and Auth0 Platform for customer identity) to more than 20,000 customers, with a growing AI-agent identity control plane opportunity.

What it sells

Cloud-based identity solutions sold as multi-year SaaS subscriptions. Two platforms serve two use cases: (1) Workforce identity via the Okta Platform - access management (single sign-on, adaptive MFA, API access management, access gateway, device access, universal directory), security (identity threat protection, identity security posture management, Okta for AI Agents), identity governance and administration (lifecycle management, Okta Workflows, Okta Identity Governance, Cross App Access), and privileged access management (advanced server access, Okta Privileged Access). (2) Customer identity via the Okta Platform and Auth0 Platform - universal login, attack protection suite, adaptive MFA, passwordless, machine-to-machine tokens, private cloud, organizations, extensibility, enterprise connections, fine-grained authorization, and Auth0 for AI Agents. Okta for AI Agents, Auth0 for AI Agents, and Cross App Access are in early access. The Okta Integration Network provides over 7,000 integrations. Professional services and customer support (three tiers) are also offered. Cloud-based identity and access management platforms (Okta Platform and Auth0 Platform) sold as multi-year SaaS subscriptions. Subscription fees are based on solutions used and number of users. Professional services include application configuration, system integration, and training. Revenue is recognized as services are performed for professional services; subscription revenue is recognized over the subscription period. The company also embeds identity for AI agents into software built by developers. Multi-year cloud-based identity subscriptions (Okta Platform and Auth0 Platform) priced primarily on solutions used and number of users, invoiced in advance in annual installments. Subscription constituted 98% of total revenue for the six months ended July 31, 2026. Professional services (application configuration, system integration, training) are time-and-materials or fixed-fee, recognized as performed, and are being shifted to global systems integrators. Subscription fees include use of service, technical support, and platform management.

Customers and channels

More than 20,000 customers as of January 31, 2026, including 5,100 with annual contract value greater than \$100,000. Customers range from small organizations with fewer than 100 employees to Fortune 50 companies, universities, nonprofits, and government agencies. Channels: direct field and inside sales; indirect through channel partners (cloud marketplaces, resellers, system integrators, VARs, Government VARs); self-service developer sign-ups for free trials, free plans, and paid developer plans of Auth0 that may transition to paid enterprise plans. Land-and-expand sales model. Go-to-market specialization at start of fiscal 2026: Okta sellers focus on IT/security buyers; Auth0 sellers focus on developers. Okta Elevate Partner Program incentivizes partners. Co-selling arrangements with leading cloud application providers. Customers range from largest global enterprises to SMBs, universities, nonprofits, and government agencies. 5,100 customers have ACV above \$100,000 as of January 31, 2026. Sales are direct (field and inside sales teams) and indirect (channel partners including cloud marketplaces, resellers, system integrators, and other distribution partners). Over 7,000 integrations exist with cloud, mobile, web applications, IT infrastructure, and security vendors via the Okta Integration Network. Customers are typically invoiced in advance in annual installments. Self-service customers are excluded from customer count but included in DBNRR. Customers range from largest global enterprises to SMBs, universities, nonprofits, and government agencies. 5,255 customers with ACV above \$100,000 as of July 31, 2026 (up from 4,945 a year prior). Sold directly through field and inside sales teams and indirectly through channel partners including cloud marketplaces, resellers, system integrators, and other distribution partners. Over 7,000 integrations via the Okta Integration Network. Customers typically pay in advance for annual subscriptions, generating deferred revenue of \$1,781 million as of July 31, 2026.

Unit economics and costs

SaaS business model with multi-year subscriptions. Revenue recognized over the term of the relevant service period. No specific unit economics, gross margin, or cost structure figures are disclosed in the excerpt. The text notes that if customers reduce workforce size, the number of identities managed and therefore revenue may decrease. No quantified CAC, LTV, or contribution margin data is provided. Total gross margin 77% in fiscal 2026 (subscription 80%, professional services -29%). Cost of subscription revenue \$578M (20% of revenue), driven by labor costs (+\$20M), third-party hosting (+\$15M), software costs (+\$9M), offset by consulting (-\$10M) and stock-based compensation (-\$8M). Professional services cost \$83M (13% of revenue), historically higher than associated revenue. Operating expenses total \$2,109M (72% of revenue): R&D \$639M (22%), S&M \$1,018M (35%, largest category), G&A \$448M (15%), restructuring \$4M. Total stock-based compensation \$544M in fiscal 2026. Sales commissions deferred and amortized over five years. Management expects S&M as largest opex category for foreseeable future, with percentage declining as revenue grows. Gross margin expected to improve over time through technology investment. Subscription gross margin was 82% in Q2 FY27 (up from 80% YoY), driven by lower amortization of acquired developed technology and improved spend efficiency. Professional services gross margin was negative at (70)% in Q2 due to lower revenue with flat costs. Total gross margin 80% in Q2. Stock-based compensation was \$114 million in Q2 (\$231 million for six months), down from \$144 million in Q2 FY26. Operating expenses: R&D \$163M (20% of revenue), S&M \$273M (35%), G&A \$98M (12%). S&M expected to remain the largest operating expense category. G&A expected to decline as percentage of revenue. Capitalized software \$11M and PP&E \$2M for six months. Deferred commissions amortized over generally five years.

Segments

- **Workforce identity (Okta Platform)** - Manages and secures employees, contractors, partners, NHIs, and AI agents. Primarily consumed through web and mobile interfaces by IT organizations.
- **Customer identity (Okta Platform + Auth0 Platform)** - Developer-centric; embeds identity into customer- and citizen-facing cloud, mobile, and web applications. Primarily supports consumer and SaaS applications.
- **One reportable segment** - Okta operates as one reportable segment. Revenue for fiscal 2026 was \$2,919 million (12% growth), fiscal 2025 \$2,610 million (15% growth), fiscal 2024 \$2,263 million. Subscription revenue was \$2,855 million (98% of total); professional services and other was \$64 million (2%).

Revenue drivers

- Multi-year SaaS subscriptions to cloud-based offerings
- Land-and-expand model: cross-selling and up-selling additional product offerings within existing customers
- Growth in number of users/identities managed as customers increase headcount or monthly active users
- Large-customer focus (5,100 customers with ACV > \$100,000)
- International expansion (20% of revenue generated outside the United States in fiscal 2026)
- Emerging AI-agent and non-human identity (NHI) governance opportunity

- Okta Integration Network ecosystem (over 7,000 integrations) driving network effects
- Partner ecosystem co-selling and channel distribution

Competitive position

Principal competitor is Microsoft. Competitor categories include authentication providers, identity governance providers, multi-factor authentication providers, infrastructure-as-a-service providers, other customer identity and access management providers, and in-house solutions. Competes on flexibility, independence, product capabilities, total cost of ownership, time to value, scalability, user experience, number of pre-built integrations, customer satisfaction, global reach, and ease of integration. Larger competitors have greater financial, technical, sales, marketing, distribution, and customer support resources, longer operating histories, and greater name recognition. Okta can and often does co-exist alongside competitors' products within its customer base. Competition expected to intensify as markets mature and new technologies (including AI) enter. Okta describes itself as the leading independent identity partner. Larger enterprises recognize the value of its platforms and replace legacy identity access management infrastructure. The Okta Integration Network with over 7,000 integrations provides ecosystem lock-in. The company is expanding capabilities to include AI agents with new product offerings in development and early access. Competitive advantage is framed around governing seamless and secure access for human users and non-human identities (NHIs). Described as the leading independent identity provider. Okta Integration Network with over 7,000 integrations with cloud, mobile, web applications and IT infrastructure and security vendors. Positioning as neutral identity provider for AI agents. Larger enterprises replacing legacy identity access management infrastructure. Okta Identity Governance cited as a strong contributor to top-line growth.

Industry direction

Shift from network-based security models to Zero Trust security model focused on adaptive and context-aware controls. Digital transformation, cloud adoption, and evolving security threat landscape drive demand for identity management. Emergence of AI and deployment of AI agents may create new opportunities for identity management as a unified, independent control plane for non-human identities and AI agents. Adoption of AI agents is in early stages. Ongoing trend of merger and acquisition activity in technology industry, particularly involving security or identity and access management technologies, may result in increased competition from large technology companies. Identity governance is expanding to include AI agents and non-human identities. Enterprises are replacing legacy identity access management infrastructure. The company sees continued value in expanding user counts and additional product offerings within existing customers. Professional services are shifting toward partner ecosystems. The macroeconomic environment (tariffs, trade protectionism, interest rates, inflation, banking sector uncertainty) creates uncertainty for business operations. AI agents are transforming every layer of technology, creating demand for trusted identity and access controls for agents. Management positions Okta as the neutral identity provider for AI agents, helping organizations discover agents, secure connections, govern actions, and respond when something goes wrong. Product offerings for AI agents are currently available or under development. Longer sales cycles observed in the market.

Recent developments

- Q2 FY27 revenue \$805M (+11% YoY); subscription \$793M (+12% YoY); professional services \$12M (-33% YoY) due to shift to global systems integrators
- Total gross margin improved to 80% from 77% YoY; subscription gross margin 82% vs 80%; professional services margin worsened to (70)% from (24)%
- GAAP operating income \$107M (13% margin) vs \$41M (6%) YoY; non-GAAP operating income \$226M (28% margin) vs \$202M (28%)
- GAAP net income \$116M vs \$67M; non-GAAP net income \$194M vs \$169M; non-GAAP diluted EPS \$1.05 vs \$0.91
- Operating cash flow \$234M (29% margin) vs \$167M (23%); free cash flow \$227M (28% margin) vs \$162M (22%)
- DBNRR 107% vs 106% YoY; customers >\$100K ACV 5,255 vs 4,945; RPO \$4,858M (+17% YoY); cRPO \$2,585M (+14% YoY)
- 2026 Notes matured June 15, 2026; full remaining \$350M principal settled in cash; associated capped calls expired unexercised
- Share Repurchase Program: \$1B authorized January 2026; 4,569,262 shares repurchased for \$366M in six months; \$555M remaining

Management outlook

Management takes a prudent approach to forward guidance. For Q3 FY27: total revenue \$813M-\$817M (10% YoY growth); cRPO \$2.590B-\$2.600B (11-12% YoY); non-GAAP operating income \$196M-\$200M (24-25% margin); non-GAAP diluted EPS \$0.92-\$0.94 (~184M shares, 21% tax rate); non-GAAP FCF \$175M-\$185M (21-23% margin). For FY27: total revenue \$3.216B-\$3.226B (10-11% YoY growth, including ~1pp headwind from professional services shift to partners); non-GAAP operating income \$830M-\$840M (26% margin); non-GAAP diluted EPS \$3.90-\$3.94 (~184M shares, 21% tax rate); non-GAAP FCF \$910M-\$930M (28-29% margin, including ~1pp impact from lower interest income due to share repurchase program and 2026 Notes settlement). Professional services revenue expected to decline as more engagements shift to partner ecosystem. Interest income expected to decrease in FY27 following cash settlement of 2026 Notes and deployment of investable cash to fund Share Repurchase Program. G&A expected to decrease as percentage of revenue. S&M expected to remain largest operating expense category. Management expects professional services revenue to decline in fiscal 2027 as engagements shift to partner ecosystem. Interest income expected to decrease in fiscal 2027 due to cash deployment for Share Repurchase Program, 2026 Notes settlement, and interest rate changes. S&M expected to remain largest opex category but decline as percentage of revenue. Gross margin expected to improve over time through technology investment. G&A expected to decline as percentage of revenue. Valuation allowance on US deferred tax assets may be released in foreseeable future if sufficient positive evidence outweighs negative evidence, but timing and amount uncertain. The One Big Beautiful Bill Act (enacted July 4, 2025) is expected to reduce federal and state cash tax payments via immediate expensing of domestic R&D. International tax provisions effective beginning fiscal period ending January 31, 2027 are being evaluated. Growth strategy: deepen relationships with existing customers via cross-selling and up-selling; drive growth with large customers using land-and-expand model; leverage partner ecosystem (Okta Elevate Partner Program); expand international footprint; innovate and extend platforms with new products (AI agents, MCP); extend accessible market with new use cases; go-to-market specialization; leverage integrations; expand developer ecosystem; leverage unique data assets with powerful analytics (no direct revenue currently derived from data assets, but may explore monetization in future); evaluate M&A opportunities. Management believes identity is becoming the most critical layer of an organization's security and sees potential long-term opportunity for platforms to serve as unified control plane for NHIs and AI agents.

Accounting flags

- No significant changes to critical accounting estimates for six months ended July 31, 2026 from those in the 2026 Form 10-K
- Full valuation allowance maintained on deferred tax assets in the United States as of July 31, 2026; potential release in foreseeable future
- Non-GAAP tax rate changed from 26% to 21% effective February 1, 2026 (beginning of fiscal 2027)
- Tax provision increase driven by higher forecasted pre-tax income for FY27 and tax impacts of Axiom integration
- Stock-based compensation \$114M in Q2 (\$231M for six months), excluded from non-GAAP measures

- Amortization of acquired intangibles \$3M in Q2 (\$21M for six months), excluded from non-GAAP measures

Key figures

KEY FIGURES	TTM TO 2026-07-31	FY2026	
Revenue	\$3.07B	\$2.92B	+11.8% y/y
Gross margin	78.1%		
Operating income	\$232.0M	\$149.0M	7.5% margin
Net income	\$296.0M	\$235.0M	
Diluted EPS	\$1.66	\$1.31	131.7x trailing P/E
Operating cash flow	\$987.0M	\$884.0M	+17.9% y/y
Capital spending	\$8.0M	\$9.0M	0.3% of revenue
Unlevered FCFF	\$979.4M		
Cash and short-term investments	\$2.30B		
Net debt	\$-2.30B		
Share repurchases	\$445.0M	\$73.0M	

Figures from the filings' XBRL; definitions in the method section. Capitalised software / intangible purchases are added to capex in the cash-flow bridge. Flows are trailing twelve months to 2026-07-31 (fiscal year 2026 plus year to date less the same period a year earlier, from the 10-Q filed 2026-08-27). Balance-sheet items are as of 2026-07-31 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation.

The counter-case

The base case of \$190.90 is only 12.7% below the price, and the probability-weighted value of \$186.13 is 14.9% below. This is a modest gap for a short. Okta's 31.9% FCFF margin, zero debt, \$2,299M net cash, 107% DBNRR, and 80% gross margin are genuinely strong. Management delivered Q2 FY27 revenue of \$805M (+11% YoY), consistent with the 10-11% guidance. The AI-agent identity opportunity, while early, could reaccelerate growth. The prior memo's base value of \$63.91 was far more extreme; the current base case is much less bearish, suggesting the prior thesis was overstated. A 100x multiple on a high-quality SaaS business with improving margins and no leverage is not unreasonable, and the gap to the price may reflect legitimate growth optionality rather than mispricing. Okta is the leading independent identity provider with 5,255 customers above \$100K ACV, 107% DBNRR, 80% gross margin, 31.9% FCFF margin, a net-cash balance sheet of \$2,299M, and zero financial debt. If AI-agent identity governance (Okta for AI Agents, Auth0 for AI Agents, Cross App Access) becomes a material revenue stream, growth reaccelerates beyond 11% and the multiple expands toward the bull case of 140x on \$1.91 EPS, yielding \$267.26, a 22.2% upside. The 7,000-integration Okta Integration Network creates ecosystem lock-in, and management positions Okta as the neutral control plane for non-human identities, a category Microsoft may not credibly serve as an independent provider.

Valuation

The DCF calculator cannot run because point-in-time shares_outstanding is unavailable (shares_for_per_share_values is null), so the net-debt bridge to equity cannot be completed. However, diluted EPS is positive (\$1.66 TTM) and the trailing P/E of 131.73x is computable, making the earnings multiple the only feasible valuation method. Okta is a recurring-revenue SaaS business with positive earnings, low capital intensity, and a net-cash balance sheet, so a P/E multiple is appropriate.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	50.0x forward EPS \$1.91 (reported diluted, growth +15.0%)	\$95.45	-56.3%
Base (P/E)	100.0x forward EPS \$1.91 (reported diluted, growth +15.0%)	\$190.90	-12.7%
Bull (P/E)	140.0x forward EPS \$1.91 (reported diluted, growth +15.0%)	\$267.26	+22.2%

- Anchors from the company's own history: base-case growth band +11.8% to +47.2% a year; own trailing P/E 64.49-1570.33x (median 817.41x) at the two of the last five fiscal year ends with positive earnings.
- Probability-weighted value \$186.13 (-14.9% vs price) at 25%/50%/25% weights.

Bear case (25% probability, \$95.45): Revenue growth falls below 10% as enterprise IT spending normalizes, SBC dilution persists at 16%+ of revenue, Microsoft bundles agent identity into its own stack, and the multiple compresses to 50x on \$1.91 EPS. Base case (50% probability, \$190.90): Revenue grows 10-11% as guided, margins improve modestly, SBC remains a recurring drag on GAAP EPS, and the multiple settles at 100x on \$1.91 EPS, reflecting a mature high-quality SaaS business without reacceleration. Bull case (25% probability, \$267.26): AI-agent identity governance becomes a material revenue stream, growth reaccelerates above 15%, gross margin improves toward 82%, and the multiple expands to 140x on \$1.91 EPS, reflecting Okta's position as the neutral control plane for non-human identities.

No listed peer was judged comparable. No peer tree is available for this quarter (anchors.peers status: unavailable). No comparables can be marked. Okta's own trailing P/E of 131.73x, revenue growth of 11.84%, operating margin of 7.55%, and FCFF margin of 31.87% cannot be benchmarked against peers. The company's own five-year P/E range (64.49x-1570.33x) is distorted by years with near-zero or negative EPS, making it an unreliable anchor. The current 131.73x reflects the market's pricing of 10-11% growth with improving margins, but without peer data, the multiple cannot be validated against comparable SaaS businesses.

What would change the view

Key debates

- Reported EPS growth trajectory: The entire valuation hinges on whether reported diluted EPS sustains growth. TTM EPS is \$1.66, but SBC of \$503M TTM (16.4% of revenue) and intangible amortization of \$85M TTM are recurring costs that management excludes from non-GAAP EPS but cannot exclude from GAAP EPS. If reported EPS growth stalls, the 131x multiple compresses sharply. (Fact sheet: diluted EPS TTM \$1.66, SBC TTM \$503M, intangible amortization TTM \$85M. Management guides non-GAAP diluted EPS \$3.90-\$3.94 for FY27, but GAAP EPS is not guided.)
- Revenue growth deceleration: Revenue growth has fallen from 28% (5-year CAGR) to 12% last year and 11% YTD. Management guides 10-11% for FY27. A further deceleration to 7-8% would compress the multiple materially and undermine the P/E anchor. (Fact sheet: revenue_growth 0.1184, revenue_growth_ytd 0.1088. Management guides FY27 revenue \$3.216B-\$3.226B (10-11% YoY).)
- AI-agent identity monetization: Okta for AI Agents, Auth0 for AI Agents, and Cross App Access are in early access. If these become a material revenue stream, growth reaccelerates and the multiple expands. If Microsoft bundles agent identity into its own stack, the opportunity is commoditized. (Business read: 'Okta for AI Agents, Auth0 for AI Agents, and Cross App Access are in early access.' Management positions Okta as 'the neutral identity provider for AI agents'.)

Exposures (verified against the filing)

- Interest rates, mixed for the equity: Higher rates increase the value of the \$2,299M cash and short-term investments portfolio but reduce interest income as cash is deployed for buybacks and the 2026 Notes settlement. Management expects interest income to decrease in FY27.

Sensitivities the company discloses

- Foreign currency exchange rates: 10% hypothetical change gives Would not have had a material impact on consolidated financial statements
- Interest rates: 10% relative change gives Would not have had a material impact on the value of cash equivalents or investment portfolio

Catalysts

- Q3 FY27 earnings release (expected around November 2026) testing whether revenue tracks the \$813M-\$817M guidance and whether DBNRR holds at 107%
- AI-agent identity product monetization: whether Okta for AI Agents, Auth0 for AI Agents, and Cross App Access convert from early access to material revenue
- Microsoft competitive response: bundling agent identity into its own stack or pricing pressure on Okta's independent positioning
- Potential release of the full valuation allowance on US deferred tax assets, which would reduce income tax expense and boost reported EPS
- Share repurchase program execution: \$555M remaining authorization, which reduces share count and supports EPS but also reduces interest income
- Macroeconomic data on enterprise IT spending cycles and workforce reductions affecting identity seat counts

Invalidation

- DBNRR falls below 100% consistently, indicating customer churn rather than expansion
- Revenue growth reaccelerates above 15% annually, supporting the 131x+ multiple
- Reported GAAP EPS growth sustains above 20% despite SBC, narrowing the gap between GAAP and non-GAAP EPS
- AI-agent identity products generate material revenue within 12 months, reaccelerating growth beyond 11%
- Major enterprise contract losses to Microsoft or bundled competitors reduce the 5,255-customer base
- Gross or operating margins contract significantly despite spend efficiency improvements

Risks

- SBC of \$503M TTM (16.4% of revenue) is a recurring cost that depresses GAAP EPS and dilutes shareholders; management excludes it from non-GAAP measures but cannot exclude it from GAAP EPS
- Intense competition from Microsoft, which has greater resources, name recognition, and bundling advantages
- Customer retention risk: customers have no obligation to renew; past non-renewals occurred
- AI-agent identity products are in early access with no confirmed revenue contribution
- Dual-class structure concentrates voting control (32% voting power held by pre-IPO holders)
- Professional services revenue declining as engagements shift to partner ecosystem, creating a ~1pp headwind to total revenue growth
- Interest income expected to decrease in FY27 due to cash deployment for share repurchases and 2026 Notes settlement
- Macroeconomic uncertainty (tariffs, trade protectionism, interest rates, inflation) affecting enterprise IT spending

Short side

The short is directionally supported: base case \$190.90 vs price \$218.67, probability-weighted value \$186.13, a 14.9% gap. However, the gap is modest compared to the prior memo's extreme bear case (\$63.91 base). Borrow availability is not addressed in the supplied material; Okta is a large-cap SaaS name with likely adequate borrow, but the fund should confirm. Squeeze risk is real: the stock rallied 3.4% since the prior memo, and the AI-agent narrative could drive further multiple expansion if early-access products gain traction. Timing is uncertain; the 540-day horizon allows for multiple compression, but the AI-agent story could sustain the premium for longer. Unbounded loss is the standard short risk; the bull case at 140x on \$1.91 EPS yields \$267.26, a 22.2% loss. The short is interesting but not compelling at this multiple gap; the prior memo's 35x base was more extreme and the current 100x base is more defensible, reducing the edge.

Open questions

Will reported GAAP diluted EPS sustain growth above 15% given recurring SBC of \$503M TTM (16.4% of revenue) and intangible amortization of \$85M TTM? (forecast uncertainty)

The base case assumes 15% EPS growth to \$1.91. If SBC remains at 16%+ of revenue, GAAP EPS growth may stall, compressing the multiple. Management guides non-GAAP EPS of \$3.90-\$3.94 for FY27 but does not guide GAAP EPS. Watch: Q3 FY27 earnings release: compare GAAP diluted EPS to the \$1.66 TTM base and check whether SBC as a percentage of revenue is declining.

Will AI-agent identity products (Okta for AI Agents, Auth0 for AI Agents, Cross App Access) generate material revenue within 12 months? (forecast uncertainty)

These products are in early access. If they remain immaterial, the 131x multiple is unsupported. If they reaccelerate growth beyond 11%, the bull case of 140x is justified. Watch: Management commentary on AI-agent revenue contribution in Q3 FY27 earnings call; customer adoption metrics.

Will the full valuation allowance on US deferred tax assets be released, reducing income tax expense and boosting reported EPS? (forecast uncertainty)

Management states potential release in foreseeable future if positive evidence outweighs negative, but timing and amount are uncertain. The effective tax rate of 8.64% is structural, not a one-off. Watch: Tax provision commentary in subsequent quarterly filings.

Is borrow available for a short position in OKTA, and at what cost? (missing fact)

The supplied material does not address borrow availability or cost. For a short thesis, borrow must be confirmed before sizing. Watch: Fund's prime-brokerage borrow desk confirmation before any position is opened.

Limitations

The DCF calculator cannot run because point-in-time shares_outstanding is unavailable, so the net-debt bridge to equity cannot be completed. The earnings multiple is the only feasible method. The base multiple of 100x is within the company's own five-year P/E range (64.49x-1570.33x), but that range is distorted by years with near-zero or negative EPS (only 2 of 5 years had positive EPS), making it an unreliable anchor. No peer tree is available for this quarter, so the multiple cannot be benchmarked against comparable SaaS businesses. The prior memo's base value of \$63.91 used a 35x multiple; the current base case uses 100x, a much more moderate assumption. The 12.7% gap between base case (\$190.90) and price (\$218.67) is modest for a short and may reflect legitimate growth optionality rather than mispricing. The forecast growth of 15% is above the 10-11% management guidance, which is a conservative assumption for the base case but could be challenged if growth stays at 10-11%. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:customer concentration; exposure quote unverified:regulation.

Sources

10-K for the fiscal year ended 2026-01-31, filed 2026-03-05 (accession 0001660134-26-000020).

10-Q for the quarter ended 2026-07-31, filed 2026-08-27 (accession 0001660134-26-000069).

8-K for the earnings release dated 2026-08-26, filed 2026-08-26 (accession 0001660134-26-000068).

- Price: historical close of \$218.67 on 2026-10-06.
- 8 cited claims and 11 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 548 · memo SHA-256 adc02e62322a4da9... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.