NEW RISK ALERT: (OKTA)

OKTA is Inflating Billings by $74.7 Million

Identity and access management company's spike in billings is not sustainable.

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This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, are powerful indicators of future performance. Companies that change filing language and structure underperform those that don't by 30-50 basis points per month for the following year.

Okta Pulls Forward Nearly $75 Million in Billings With Invoice Timing Change

Okta, an identification management platform, increased billings 74% in the quarter ending April 30, 2021. The company provides a non-GAAP metric it calls calculated billings which is total revenue plus the change in deferred revenue and less the change in unbilled receivables during the period. In its latest 10-Q, Okta revealed much of the increase in billings is due to a change the company made in its billing practices:

> *"We implemented operational changes to our billings process in the three months ended April 30, 2021 pursuant to which **we billed customers earlier than we would have under our historical billing practices.**"*

On its earnings call, Okta provided additional detail on the new billing practices:

> *"...we implemented operational improvements to our billings process in Q1, which conforms with the practices of other large SaaS peers. These 2 improvements are: one, **we are now billing at contract signature rather than subscription start date**; and two, **subsequent annual payments are now due rather than billed on the anniversary date**. This has a favorable effect on both billings and cash collections timing."*

Our analysis reveals the change increased Okta's calculated billings by approximately 85% or $74.7 million in the quarter. The change allowed the company to report $364 million in calculated billings rathert than $289 million. The company acknowledged the pull forward in its latest quarterly report:

> *"**Absent the impact of the billings process changes, calculated billings would have grown 40% year-over-year**."*

If part of Okta's motivation underpinning the change was to lift the company's share price, it didn't work. Shares fell 9.7% after the company reported the quarter's results. Okta's stock price is crucial as the company uses it as currency for acquisitions. For example, Okta acquired Auth0, an identity platform for applications, for approximately $6.5 billion in Class A stock. The company's stock fell approximately 22% following the Auth0 announcement making future deals transacted in company stock more expensive.

> *"..we may choose to expand into a certain market or strategy via an acquisition for which we could potentially pay too much…"*

The incentive to tinker with Okta's accounting earnings is obvious. The company also has a convenient excuse to do so— a new CFO started June 1, 2021. Investors should not expect Okta's calculated billings to continue growing at the current pace though. Not only might Okta's growing list of enterprise customers balk at the new payment terms, the impact of the change will wane once the billing change is lapped by the next subscription. On its earnings call, Okta warned investors of as much:

> *"**Going forward, we expect the effect of these changes to be much more modest**."*