Workday Announces Fiscal 2022 Second Quarter Financial Results

**Fiscal Second Quarter Total Revenues of $1.26 Billion, Up 18.7% Year Over Year**
**Subscription Revenue of $1.11 Billion, Up 19.5% Year Over Year**
**24-Month Subscription Revenue Backlog of $6.88 Billion, Up 19.0% Year Over Year**
**Total Subscription Revenue Backlog of $10.58 Billion, Up 23.1% Year Over Year**

PLEASANTON, Calif., Aug. 26, 2021 (GLOBE NEWSWIRE) -- Workday, Inc. (NASDAQ: WDAY), a leader in enterprise cloud applications for finance and human resources, today announced results for the fiscal 2022 second quarter ended July 31, 2021.

**Fiscal 2022 Second Quarter Results**

- Total revenues were $1.26 billion, an increase of 18.7% from the second quarter of fiscal 2021. Subscription revenue was $1.11 billion, an increase of 19.5% from the same period last year.
- Operating loss was $1.1 million, or negative 0.1% of revenues, compared to an operating loss of $16.8 million, or negative 1.6% of revenues, in the same period last year. Non-GAAP operating income for the second quarter was $291.8 million, or 23.2% of revenues, compared to a non-GAAP operating income of $257.7 million, or 24.3% of revenues, in the same period last year.[1]
- Basic and diluted net income per share was $0.43 and $0.41, respectively, compared to a basic and diluted net loss per share of $0.12 in the second quarter of fiscal 2021. Non-GAAP basic and diluted net income per share was $1.29 and $1.23, respectively, compared to a non-GAAP basic and diluted net income per share of $0.89 and $0.84, respectively, in the same period last year.[2]
- Operating cash flows were $198.5 million compared to $157.2 million in the prior year.
- Cash, cash equivalents, and marketable securities were $3.31 billion as of July 31, 2021.

**Comments on the News**

“This quarter was one of our strongest in company history. Our customer community has grown to more than 55 million users and more than half of the *Fortune* 500 have selected Workday,” said Aneel Bhusri, co-founder, co-CEO, and chairman, Workday. “To meet this moment of great opportunity – where digital acceleration is at the forefront of global business leaders’ agendas – we continue to invest in our employees to help drive innovation and customer satisfaction. Looking ahead, I am optimistic about our future and our position in supporting the changing world of work.”

“Our business continues to accelerate, fueled by growing demand from large enterprise customers for our industry leading HR, finance, and planning solutions to drive transformation at scale,” said Chano Fernandez, co-CEO, Workday. “Looking to the future, we are well positioned for the second half of the year and will continue to invest in our go-to-market strategy and our people, who are foundational to our success.”

“We delivered an incredibly strong Q2, driven by exceptional execution against a rapidly improving backdrop,” said Robynne Sisco, president and chief financial officer, Workday. “As a result, we are raising our fiscal 2022 guidance for subscription revenue to a range of $4.500 billion to $4.510 billion, growth of 19%. We expect third-quarter subscription revenue of $1.156 billion to $1.158 billion, 20% growth at the high end. We are also raising our fiscal 2022 non-GAAP operating margin guidance to 21.0%.”

**Recent Highlights**

- The Workday customer community now includes more than 50% of the *Fortune* 500, of which, approximately 90% are live on Workday products.
- Workday has expanded its partnership with Google to include Google Cloud, in addition to Google’s expanded use of Workday applications.
- Workday announced it plans to deliver Workday Payroll for Australia and Germany.
- Workday announced it has achieved Ready status for the Federal Risk and Authorization Management Program (FedRAMP) at a Moderate impact level, advancing its position to help federal agencies accelerate their IT transformations at scale.
- Workday issued its biannual Global Impact Report, detailing its environmental, social, and governance commitments, including donating $45 million over the next three years to organizations supporting social justice.
- Workday announced its new brand ambassadors, Larry Fitzgerald and Peyton Manning.

**Earnings Call Details**

Workday plans to host a conference call today to review its fiscal 2022 second quarter financial results and to discuss its financial outlook. The call is scheduled to begin at 1:30 p.m. PT/4:30 p.m. ET and can be accessed via webcast. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 90 days.

Workday uses the Workday Blog as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

- Non-GAAP operating income excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, and amortization expense for acquisition-related intangible assets. See the section titled “About Non-GAAP Financial Measures” in the accompanying financial tables for further details.

- Non-GAAP net income per share excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects. See the section titled “About Non-GAAP Financial Measures” in the accompanying financial tables for further details.

**About Workday**

Workday is a leading provider of enterprise cloud applications for finance and human resources, helping customers adapt and thrive in a changing world. Workday applications for financial management, human resources, planning, spend management, and analytics have been adopted by thousands of organizations around the world and across industries – from medium-sized businesses to more than 50% of the *Fortune* 500. For more information about Workday, visit workday.com.

© 2021 Workday, Inc. All rights reserved. Workday and the Workday logo are registered trademarks of Workday, Inc. All other brand and product names are trademarks or registered trademarks of their respective holders.

**Use of Non-GAAP Financial Measures**

Reconciliations of non-GAAP financial measures to Workday’s financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled “About Non-GAAP Financial Measures.” A reconciliation of our forward outlook for non-GAAP operating margin with our forward-looking GAAP operating margin is not available without unreasonable efforts as the quantification of share-based compensation expense, which is excluded from our non-GAAP operating margin, requires additional inputs such as the number of shares granted and market prices that are not ascertainable.

**Forward-Looking Statements**

This press release contains forward-looking statements including, among other things, statements regarding Workday’s full-year fiscal 2022 subscription revenue and non-GAAP operating margin, third-quarter subscription revenue, growth, innovation, opportunities, customer demand and momentum, acceleration potential, and investments. These forward-looking statements are based only on currently available information and our current beliefs, expectations, and assumptions. Because forward-looking statements relate to the future, they are subject to risks, uncertainties, assumptions, and changes in circumstances that are difficult to predict and many of which are outside of our control. If the risks materialize, assumptions prove incorrect, or we experience unexpected changes in circumstances, actual results could differ materially from the

results implied by these forward-looking statements, and therefore you should not rely on any forward-looking statements. Risks include, but are not limited to: (i) the impact of the ongoing COVID-19 pandemic on our business, as well as our customers, prospects, partners, and service providers; (ii) our ability to implement our plans, objectives, and other expectations with respect to our acquired companies; (iii) breaches in our security measures or those of our third-party providers, unauthorized access to our customers' or other users' personal data, or disruptions in our data center or computing infrastructure operations; (iv) service outages, delays in the deployment of our applications, and the failure of our applications to perform properly; (v) our ability to manage our growth effectively; (vi) competitive factors, including pricing pressures, industry consolidation, entry of new competitors and new applications, advancements in technology, and marketing initiatives by our competitors; (vii) the development of the market for enterprise cloud applications and services; (viii) acceptance of our applications and services by customers and individuals, including any new features, enhancements, and modifications, as well as the acceptance of any underlying technology such as machine learning, artificial intelligence, and blockchain; (ix) adverse changes in general economic or market conditions; (x) the regulatory, economic, and political risks associated with our domestic and international operations; (xi) the regulatory risks related to new and evolving technologies such as machine learning, artificial intelligence, and blockchain; (xii) delays or reductions in information technology spending; and (xiii) changes in sales, which may not be immediately reflected in our results due to our subscription model. Further information on these and additional risks that could affect Workday's results is included in our filings with the Securities and Exchange Commission ("SEC"), including our Form 10-Q for the fiscal quarter ended July 31, 2021, and our future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. Workday assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Any unreleased services, features, or functions referenced in this document, our website, or other press releases or public statements that are not currently available are subject to change at Workday's discretion and may not be delivered as planned or at all. Customers who purchase Workday services should make their purchase decisions based upon services, features, and functions that are currently available.

**Workday, Inc.**
**Condensed Consolidated Balance Sheets**
(in thousands)
(unaudited)

| | July 31, 2021 | January 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,087,070 | $ 1,384,181 |
| Marketable securities | 2,220,888 | 2,151,472 |
| Trade and other receivables, net | 872,764 | 1,032,484 |
| Deferred costs | 130,105 | 122,764 |
| Prepaid expenses and other current assets | 150,287 | 111,160 |
| Total current assets | 4,461,114 | 4,802,061 |
| Property and equipment, net | 1,135,593 | 972,403 |
| Operating lease right-of-use assets | 275,747 | 414,143 |
| Deferred costs, noncurrent | 278,197 | 271,796 |
| Acquisition-related intangible assets, net | 381,392 | 248,626 |
| Goodwill | 2,362,166 | 1,819,625 |
| Other assets | 219,636 | 189,757 |
| **Total assets** | $ 9,113,845 | $ 8,718,411 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 53,082 | $ 75,596 |
| Accrued expenses and other current liabilities | 178,857 | 169,266 |
| Accrued compensation | 303,738 | 285,061 |
| Unearned revenue | 2,454,379 | 2,556,624 |
| Operating lease liabilities | 82,075 | 93,000 |
| Debt, current | 1,201,964 | 1,103,101 |
| Total current liabilities | 4,274,095 | 4,282,648 |
| Debt, noncurrent | 654,633 | 691,913 |
| Unearned revenue, noncurrent | 64,210 | 80,111 |
| Operating lease liabilities, noncurrent | 209,193 | 350,051 |
| Other liabilities | 43,724 | 35,854 |
| Total liabilities | 5,245,855 | 5,440,577 |
| Stockholders' equity: | | |
| Common stock | 248 | 242 |
| Additional paid-in capital | 6,639,067 | 6,254,936 |
| Treasury stock | (12,431) | (12,384) |
| Accumulated other comprehensive income (loss) | (44,150) | (54,970) |
| Accumulated deficit | (2,714,744) | (2,909,990) |
| Total stockholders' equity | 3,867,990 | 3,277,834 |
| **Total liabilities and stockholders' equity** | $ 9,113,845 | $ 8,718,411 |

**Workday, Inc.**
**Condensed Consolidated Statements of Operations**
(in thousands, except per share data)
(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Revenues:** | | | | |
| Subscription services | $ 1,113,454 | $ 931,698 | $ 2,145,623 | $ 1,813,654 |
| Professional services | 146,907 | 130,269 | 289,771 | 266,698 |
| Total revenues | 1,260,361 | 1,061,967 | 2,435,394 | 2,080,352 |
| **Costs and expenses[(1)]:** | | | | |
| Costs of subscription services | 192,738 | 145,007 | 374,946 | 290,270 |
| Costs of professional services | 152,783 | 139,270 | 303,628 | 299,637 |

| | | | | |
|---|---|---|---|---|
| Product development | 444,251 | 418,681 | 885,867 | 862,165 |
| Sales and marketing | 358,157 | 276,497 | 684,651 | 595,054 |
| General and administrative | 113,552 | 99,266 | 225,735 | 194,437 |
| Total costs and expenses | 1,261,481 | 1,078,721 | 2,474,827 | 2,241,563 |
| Operating income (loss) | (1,120) | (16,754) | (39,433) | (161,211) |
| Other income (expense), net | 102,985 | (11,453) | 93,934 | (22,426) |
| Income (loss) before provision for (benefit from) income taxes | 101,865 | (28,207) | 54,501 | (183,637) |
| Provision for (benefit from) income taxes | (3,871) | (191) | (4,713) | 2,747 |
| **Net income (loss)** | $ 105,736 | $ (28,016) | $ 59,214 | $ (186,384) |
| **Net income (loss) per share, basic** | $ 0.43 | $ (0.12) | $ 0.24 | $ (0.79) |
| **Net income (loss) per share, diluted** | $ 0.41 | $ (0.12) | $ 0.23 | $ (0.79) |
| **Weighted-average shares used to compute net income (loss) per share, basic** | 246,943 | 236,002 | 245,308 | 234,483 |
| **Weighted-average shares used to compute net income (loss) per share, diluted** | 260,016 | 236,002 | 252,900 | 234,483 |

(1) Costs and expenses include share-based compensation expenses as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Costs of subscription services | $ 20,421 | $ 14,825 | $ 41,138 | $ 28,717 |
| Costs of professional services | 26,534 | 24,552 | 54,226 | 47,118 |
| Product development | 129,892 | 128,505 | 259,754 | 250,527 |
| Sales and marketing | 52,168 | 49,854 | 102,476 | 96,804 |
| General and administrative | 35,704 | 33,500 | 71,760 | 64,742 |

**Workday, Inc.**
**Condensed Consolidated Statements of Cash Flows**
(in thousands)
(unaudited)

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Cash flows from operating activities:** | | | | |
| Net income (loss) | $ 105,736 | $ (28,016) | $ 59,214 | $ (186,384) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 85,383 | 73,178 | 167,846 | 144,692 |
| Share-based compensation expenses | 264,719 | 251,236 | 529,354 | 487,908 |
| Amortization of deferred costs | 33,748 | 27,349 | 65,362 | 53,409 |
| Amortization of debt discount and issuance costs | 997 | 14,528 | 1,994 | 29,368 |
| Non-cash lease expense | 21,069 | 19,879 | 43,299 | 38,248 |
| (Gains) losses on investments | (106,275) | (1,962) | (100,257) | 499 |
| Other | (8,006) | 14,392 | (10,627) | 16,301 |
| Changes in operating assets and liabilities, net of business combinations: | | | | |
| Trade and other receivables, net | (227,511) | (109,316) | 164,608 | 181,586 |
| Deferred costs | (52,834) | (41,841) | (79,104) | (59,901) |
| Prepaid expenses and other assets | (3,531) | (9,137) | (39,097) | 10,840 |
| Accounts payable | 8,060 | 9,307 | 7,890 | (13,075) |
| Accrued expenses and other liabilities | (15,687) | (39,837) | (26,607) | (41,341) |
| Unearned revenue | 92,605 | (22,550) | (132,974) | (241,257) |
| Net cash provided by (used in) operating activities | 198,473 | 157,210 | 650,901 | 420,893 |
| **Cash flows from investing activities:** | | | | |
| Purchases of marketable securities | (829,370) | (602,546) | (1,594,765) | (1,156,531) |
| Maturities of marketable securities | 771,824 | 473,016 | 1,629,232 | 854,414 |
| Sales of marketable securities | 14,829 | — | 27,286 | 5,279 |
| Owned real estate projects | (71) | (1,764) | (171,494) | (4,251) |
| Capital expenditures, excluding owned real estate projects | (87,781) | (66,555) | (157,577) | (126,495) |
| Business combinations, net of cash acquired | — | — | (679,220) | — |
| Purchases of non-marketable equity and other investments | (12,039) | (6,350) | (57,806) | (58,600) |
| Sales and maturities of non-marketable equity and other investments | 3,270 | 1,561 | 3,295 | 6,199 |
| Other | 6 | — | 1 | — |
| Net cash provided by (used in) investing activities | (139,332) | (202,638) | (1,001,048) | (479,985) |
| **Cash flows from financing activities:** | | | | |
| Proceeds from borrowings on Term Loan, net of debt discount and issuance costs | — | 250,000 | — | 747,795 |
| Payments on convertible senior notes | (20) | (249,945) | (71) | (249,946) |
| Payments on Term Loan | (9,375) | — | (18,750) | — |
| Proceeds from issuance of common stock from employee equity plans, net of taxes paid for shares withheld | 75,844 | 70,940 | 74,487 | 74,517 |
| Other | (151) | (215) | (376) | (2,255) |
| Net cash provided by (used in) financing activities | 66,298 | 70,780 | 55,290 | 570,111 |
| Effect of exchange rate changes | (321) | 771 | (135) | 506 |

| | | | | |
|---|---|---|---|---|
| **Net increase (decrease) in cash, cash equivalents, and restricted cash** | 125,118 | 26,123 | (294,992) | 511,525 |
| **Cash, cash equivalents, and restricted cash at the beginning of period** | 967,811 | 1,220,123 | 1,387,921 | 734,721 |
| **Cash, cash equivalents, and restricted cash at the end of period** | $ 1,092,929 | $ 1,246,246 | $ 1,092,929 | $ 1,246,246 |

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Three Months Ended July 31, 2021
(in thousands, except percentages and per share data)
(unaudited)

| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses [2] | Income Tax Effects [3] | Non-GAAP |
|---|---|---|---|---|---|
| Costs and expenses: | | | | | |
| Costs of subscription services | $ 192,738 | $ (20,421) | $ (13,132) | $ — | $ 159,185 |
| Costs of professional services | 152,783 | (26,534) | (1,215) | — | 125,034 |
| Product development | 444,251 | (129,892) | (3,161) | — | 311,198 |
| Sales and marketing | 358,157 | (52,168) | (9,764) | — | 296,225 |
| General and administrative | 113,552 | (35,704) | (933) | — | 76,915 |
| Operating income (loss) | (1,120) | 264,719 | 28,205 | — | 291,804 |
| Operating margin | *(0.1)%* | *21.0 %* | *2.3 %* | *— %* | *23.2 %* |
| Other income (expense), net | 102,985 | — | — | — | 102,985 |
| Income (loss) before provision for (benefit from) income taxes | 101,865 | 264,719 | 28,205 | — | 394,789 |
| Provision for (benefit from) income taxes | (3,871) | — | — | 78,881 | 75,010 |
| Net income (loss) | $ 105,736 | $ 264,719 | $ 28,205 | $ (78,881) | $ 319,779 |
| Net income (loss) per share, basic [1] | $ 0.43 | $ 1.07 | $ 0.11 | $ (0.32) | $ 1.29 |
| Net income (loss) per share, diluted [1] | $ 0.41 | $ 1.02 | $ 0.11 | $ (0.31) | $ 1.23 |

- GAAP and non-GAAP net income per share are both calculated based upon 246,943 basic and 260,016 diluted weighted-average shares of common stock. The numerator used to compute GAAP and non-GAAP diluted net income per share was increased by $1.6 million and $1.3 million, respectively, for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.
- Other operating expenses include amortization of acquisition-related intangible assets of $19.8 million and total employer payroll tax-related items on employee stock transactions of $8.4 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2022, we determined the projected non-GAAP tax rate to be 19%.

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Three Months Ended July 31, 2020
(in thousands, except percentages and per share data)
(unaudited)

| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses [2] | Amortization of Convertible Senior Notes Debt Discount and Issuance Costs | Income Tax and Dilution Effects [3] | Non-GAAP |
|---|---|---|---|---|---|---|
| Costs and expenses: | | | | | | |
| Costs of subscription services | $ 145,007 | $ (14,825) | $ (8,844) | $ — | $ — | $ 121,338 |
| Costs of professional services | 139,270 | (24,552) | (918) | — | — | 113,800 |
| Product development | 418,681 | (128,505) | (4,554) | — | — | 285,622 |
| Sales and marketing | 276,497 | (49,854) | (7,913) | — | — | 218,730 |
| General and administrative | 99,266 | (33,500) | (975) | — | — | 64,791 |
| Operating income (loss) | (16,754) | 251,236 | 23,204 | — | — | 257,686 |
| Operating margin | *(1.6)%* | *23.7 %* | *2.2 %* | *— %* | *— %* | *24.3 %* |
| Other income (expense), net | (11,453) | — | — | 14,418 | — | 2,965 |
| Income (loss) before provision for (benefit from) income taxes | (28,207) | 251,236 | 23,204 | 14,418 | — | 260,651 |
| Provision for (benefit from) income taxes | (191) | — | — | — | 49,715 | 49,524 |
| Net income (loss) | $ (28,016) | $ 251,236 | $ 23,204 | $ 14,418 | $ (49,715) | $ 211,127 |
| Net income (loss) per share, basic [1] | $ (0.12) | $ 1.06 | $ 0.10 | $ 0.06 | $ (0.21) | $ 0.89 |
| Net income (loss) per share, diluted [1] | $ (0.12) | $ 1.06 | $ 0.10 | $ 0.06 | $ (0.26) | $ 0.84 |

- GAAP net loss per share is calculated based upon 236,002 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 236,002 basic and 252,192 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of $15.7 million and total employer payroll tax-related items on employee stock transactions of $7.5 million.

- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2021, the projected non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.05 from the conversion of GAAP basic and diluted net loss per share to non-GAAP diluted net income per share.

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Six Months Ended July 31, 2021
(in thousands, except percentages and per share data)
(unaudited)

| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses [2] | Income Tax and Dilution Effects [3] | Non-GAAP |
|---|---|---|---|---|---|
| Costs and expenses: | | | | | |
| Costs of subscription services | $ 374,946 | $ (41,138) | $ (27,336) | $ — | $ 306,472 |
| Costs of professional services | 303,628 | (54,226) | (8,168) | — | 241,234 |
| Product development | 885,867 | (259,754) | (22,703) | — | 603,410 |
| Sales and marketing | 684,651 | (102,476) | (26,870) | — | 555,305 |
| General and administrative | 225,735 | (71,760) | (5,319) | — | 148,656 |
| Operating income (loss) | (39,433) | 529,354 | 90,396 | — | 580,317 |
| Operating margin | *(1.6)%* | *21.7 %* | *3.7 %* | — % | *23.8 %* |
| Other income (expense), net | 93,934 | — | — | — | 93,934 |
| Income (loss) before provision for (benefit from) income taxes | 54,501 | 529,354 | 90,396 | — | 674,251 |
| Provision for (benefit from) income taxes | (4,713) | — | — | 132,821 | 128,108 |
| Net income (loss) | $ 59,214 | $ 529,354 | $ 90,396 | $ (132,821) | $ 546,143 |
| Net income (loss) per share, basic [1] | $ 0.24 | $ 2.16 | $ 0.37 | $ (0.54) | $ 2.23 |
| Net income (loss) per shares, diluted [1] | $ 0.23 | $ 2.09 | $ 0.36 | $ (0.58) | $ 2.10 |

- GAAP net income per share is calculated based upon 245,308 basic and 252,900 diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 245,308 basic and 260,718 diluted weighted-average shares of common stock. The numerator used to compute non-GAAP diluted net income per share was increased by $2.6 million for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.
- Other operating expenses include total employer payroll tax-related items on employee stock transactions of $52.7 million and amortization of acquisition-related intangible assets of $37.7 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2022, we determined the projected non-GAAP tax rate to be 19%. Included in the per share amount is a dilution impact of $0.05 from the conversion of GAAP diluted net income per share to non-GAAP diluted net income per share.

**Workday, Inc.**
**Reconciliation of GAAP to Non-GAAP Data**
Six Months Ended July 31, 2020
(in thousands, except percentages and per share data)
(unaudited)

| | GAAP | Share-Based Compensation Expenses | Other Operating Expenses [2] | Amortization of Convertible Senior Notes Debt Discount and Issuance Costs | Income Tax and Dilution Effects [3] | Non-GAAP |
|---|---|---|---|---|---|---|
| Costs and expenses: | | | | | | |
| Costs of subscription services | $ 290,270 | $ (28,717) | $ (18,487) | $ — | $ — | $ 243,066 |
| Costs of professional services | 299,637 | (47,118) | (4,019) | — | — | 248,500 |
| Product development | 862,165 | (250,527) | (16,704) | — | — | 594,934 |
| Sales and marketing | 595,054 | (96,804) | (18,489) | — | — | 479,761 |
| General and administrative | 194,437 | (64,742) | (3,756) | — | — | 125,939 |
| Operating income (loss) | (161,211) | 487,908 | 61,455 | — | — | 388,152 |
| Operating margin | *(7.7)%* | *23.4 %* | *3.0 %* | — % | — % | *18.7 %* |
| Other income (expense), net | (22,426) | — | — | 29,221 | — | 6,795 |
| Income (loss) before provision for (benefit from) income taxes | (183,637) | 487,908 | 61,455 | 29,221 | — | 394,947 |
| Provision for (benefit from) income taxes | 2,747 | — | — | — | 72,293 | 75,040 |
| Net income (loss) | $ (186,384) | $ 487,908 | $ 61,455 | $ 29,221 | $ (72,293) | $ 319,907 |
| Net income (loss) per share, basic [1] | $ (0.79) | $ 2.08 | $ 0.26 | $ 0.12 | $ (0.31) | $ 1.36 |
| Net income (loss) per share, diluted [1] | $ (0.79) | $ 2.08 | $ 0.26 | $ 0.12 | $ (0.39) | $ 1.28 |

- GAAP net loss per share is calculated based upon 234,483 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated

based upon 234,483 basic and 250,115 diluted weighted-average shares of common stock.

- Other operating expenses include amortization of acquisition-related intangible assets of $31.6 million and total employer payroll tax-related items on employee stock transactions of $29.9 million.

- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. For fiscal 2021, the projected non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.08 from the conversion of GAAP basic and diluted net loss per share to non-GAAP diluted net income per share.

**About Non-GAAP Financial Measures**

To provide investors and others with additional information regarding Workday's results, we have disclosed the following non-GAAP financial measures: non-GAAP operating income (loss) and non-GAAP net income (loss) per share. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. Non-GAAP operating income (loss) differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, and amortization expense for acquisition-related intangible assets. Non-GAAP net income (loss) per share differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Workday's operating results and prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Management believes excluding the following items from the GAAP Condensed Consolidated Statements of Operations is useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation expenses.* Although share-based compensation is an important aspect of the compensation of our employees and executives, management believes it is useful to exclude share-based compensation expenses to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Share-based compensation expenses are determined using a number of factors, including our stock price, volatility, and forfeiture rates, that are beyond our control and generally unrelated to operational decisions and performance in any particular period. Further, share-based compensation expenses are not reflective of the value ultimately received by the grant recipients.
- *Other operating expenses*. Other operating expenses includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of ongoing operations.
- *Amortization of convertible senior notes debt discount and issuance costs* We adopted Accounting Standard Update No. 2020-06*, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*, on February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. Prior to the adoption, we were required to separately account for liability (debt) and equity (conversion option) components of the convertible senior notes that were issued in private placements in June 2013 and September 2017. Accordingly, for GAAP purposes we were required to recognize the effective interest expense on our convertible senior notes and amortize the issuance costs over the term of the notes. The difference between the effective interest expense and the contractual interest expense, and the amortization expense of issuance costs were excluded from management's assessment of our operating performance because management believed that these non-cash expenses were not indicative of ongoing operating performance. Management believed that the exclusion of the non-cash interest expense provided investors an enhanced view of Workday's operational performance. Upon adoption, we recombined the liability and equity components of our outstanding convertible senior notes, assuming the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. Under this new guidance, we will no longer incur interest expense related to the amortization of the debt discount associated with the conversion option and therefore no longer consider this to be a non-GAAP reconciling item.
- *Income tax effects.* We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the reporting periods. In projecting this long-term non-GAAP tax rate, we utilize a three-year financial projection that excludes the direct impact of share-based compensation and related employer payroll taxes, amortization of acquisition-related intangible assets, and amortization of debt discount and issuance costs. The projected rate considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. For fiscal 2022 and 2021, we determined the projected non-GAAP tax rate to be 19%, which reflects currently available information, as well as other factors and assumptions. We will periodically re-evaluate this tax rate, as necessary, for significant events, based on our ongoing analysis of the 2017 U.S. Tax Cuts and Jobs Act, relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

The use of non-GAAP operating income (loss) and non-GAAP net income (loss) per share measures have certain limitations as they do not reflect all items of income and expense that affect Workday's operations. Workday compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review Workday's financial information in its entirety and not rely on a single financial measure.

**Investor Relations Contact:**
Justin Furby
ir@workday.com

**Media Contact:**
Sion Rogers
media@workday.com

---