



NEWS RELEASE

Workday Announces Fiscal 2015 Third Quarter Financial Results

2014-11-24

Total Revenue of \$215.1 Million, Up 68% Year Over Year; Subscription Revenue of \$164.4 Million, Up 75% Year Over Year

PLEASANTON, CA--(Marketwired - Nov 24, 2014) - [Workday, Inc.](#) (NYSE: WDAY), a leader in enterprise cloud applications for [finance](#) and [human resources](#), today announced results for the fiscal third quarter ended October 31, 2014.

- Total revenues were \$215.1 million, an increase of 68% from the third quarter of fiscal 2014. Subscription revenues were \$164.4 million, an increase of 75% from same period last year.
- Operating loss was \$51.5 million, or negative 23.9% of revenues, compared to an operating loss of \$40.4 million, or negative 31.6% of revenues, in the same period last year. Non-GAAP operating loss for the third quarter was \$2.9 million, or negative 1.4% of revenues, compared to a non-GAAP operating loss of \$19.9 million last year, or negative 15.6% of revenues.¹
- Net loss per basic and diluted share was \$0.33, compared to a net loss per basic and diluted share of \$0.27 in the third quarter of fiscal 2014. The non-GAAP net loss per basic and diluted share for the third quarter was \$0.03, compared to a non-GAAP net loss per basic and diluted share of \$0.12 during the same period last year.¹
- Operating cash flows for the third quarter were \$41.0 million and free cash flows were \$13.3 million. For the trailing twelve months, operating cash flows were \$88.5 million and free cash flows were a negative \$4.8

million.2

- Cash, cash equivalents and marketable securities were approximately \$1.8 billion as of October 31, 2014. Unearned revenue was \$508.1 million, a 44% increase from last year.

"We had a strong third quarter and saw increasing customer demand globally," said Aneel Bhusri, co-founder and CEO, Workday. "We also welcomed a record number of customers to our eighth annual customer conference, Workday Rising, where we announced our newest suite of applications, Workday Insight Applications, to deepen the value our customers gain with one system in the cloud for finance and human resources."

"We are very pleased with our solid third quarter results," said Mark Peek, chief financial officer, Workday. "We generated record quarterly revenues and trailing twelve month operating cash flows. Looking ahead, we anticipate fourth quarter total revenues to be within a range of \$219 and \$222 million, or growth of 54% to 56% as compared to the prior year."

Recent Highlights

- Workday held its eighth annual customer conference, Workday Rising, bringing together more than 4,500 members of the Workday community for education and collaboration in San Francisco.
- Workday introduced Workday Insight Applications, a new suite of applications that will use the power of advanced data science and machine learning algorithms to help customers make smarter financial and workforce decisions. Workday is scheduled to make select Workday Insight Applications generally available to customers in calendar year 2015.
- Workday Financial Management momentum continued as the company surpassed the 100-customer milestone. Additionally, in its latest feature release, Workday 23, Workday unveiled Composite Reporting, an advanced reporting tool, as well as industry-specific functionality to further address the finance needs of large organizations.

Workday plans to host a conference call today to review its third quarter financial results and to discuss its financial outlook. The call is scheduled to begin at 2:00 p.m. PT/ 5:00 p.m. ET and can be accessed via [webcast](#) or through the company's Investor Relations website at www.workday.com/investorrelations. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 45 days.

1 Non-GAAP operating loss and net loss per share for the fiscal third quarters of 2015 and 2014 exclude share-based compensation, employer payroll taxes on employee stock transactions and debt discount and issuance costs associated with convertible notes, and for the fiscal third quarter of 2015, also exclude amortization expense for acquisition-related intangible assets. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

2 Free cash flows are defined as operating cash flows minus capital expenditures, assets acquired under a capital lease and purchased other intangible assets. 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**. Founded in 2005, Workday delivers financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. Hundreds of organizations, ranging from medium-sized businesses to Fortune 50 enterprises, have selected Workday.

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."

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding Workday's fourth quarter revenue projections. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) breaches in our security measures, unauthorized access to our customers' data or disruptions in our data center operations; (ii) our ability to manage our growth effectively; (iii) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors and new applications and marketing initiatives by our competitors; (iv) the development of the market for enterprise cloud services; (v) acceptance of our applications and services by customers; (vi) adverse changes in general economic or market conditions; (vii) delays or reductions in information technology spending; (viii) our limited operating history, which makes it difficult to predict future results; and (ix) changes in sales may not be immediately reflected in our results due to our subscription model. Further information on 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 quarter ended July 31, 2014 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.

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Workday, Inc.

Condensed Consolidated Balance Sheets

(in thousands)

(unaudited)

Assets

Current assets:

- Cash and cash equivalents
- Marketable securities
- Accounts receivable, net
- Deferred costs
- Prepaid expenses and other current assets

Total current assets

Property and equipment, net

Deferred costs, noncurrent

Goodwill and acquisition-related intangible assets, net

Other assets

Total assets

Liabilities and stockholders' equity

Current liabilities:

- Accounts payable
- Accrued expenses and other current liabilities
- Accrued compensation
- Capital leases
- Unearned revenue

Total current liabilities

Convertible senior notes, net

Capital leases, noncurrent

Unearned revenue, noncurrent

Other liabilities

Total liabilities

Stockholders' equity:

- Common stock
- Additional paid-in capital
- Accumulated other comprehensive income
- Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

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(1) Amounts as of January 31, 2014 were derived from the January 31, 2014 audited financial statements.



Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended October 31, 2014
Revenues:	
Subscription services	\$ 164,403
Professional services	50,667
Total revenues	215,070
Costs and expenses(1):	
Costs of subscription services	27,426
Costs of professional services	44,363
Product development	85,270
Sales and marketing	80,681
General and administrative	28,796
Total costs and expenses	266,536
Operating loss	(51,466)
Other expense, net	(8,047)
Loss before provision for income taxes	(59,513)
Provision for income taxes	399
Net loss	\$ (59,912)
Net loss per share, basic and diluted	\$ (0.33)
Weighted-average shares used to compute net loss per share, basic and diluted	184,310
(1) Costs and expenses include share-based compensation as follows:	
Costs of subscription services	\$ 1,959
Costs of professional services	4,214
Product development	19,191
Sales and marketing	8,678
General and administrative	12,966

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Workday, Inc.**Condensed Consolidated Statements of Cash Flows**

(in thousands)

(unaudited)

	Three Months Ended	
	October 31,	
	2014	2013
Cash flows from operating activities		
Net loss	\$ (59,912)	\$ (41,800)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	15,682	9,311
Share-based compensation expenses	47,008	11,100
Amortization of deferred costs	5,740	3,100
Amortization of debt discount and issuance costs	6,083	5,100
Other	1,808	8,100
Changes in operating assets and liabilities, net of business combinations:		
Accounts receivable	(18,598)	(1,100)
Deferred costs	(4,340)	(5,100)
Prepaid expenses and other assets	1,586	(2,100)
Accounts payable	4,056	1,100
Accrued expense and other liabilities	15,271	11,100
Unearned revenue	26,658	21,100
Net cash provided by operating activities	41,042	7,100
Cash flows from investing activities		
Purchases of marketable securities	(454,219)	(41,100)
Maturities of marketable securities	368,984	21,100
Sales of available-for-sale securities	--	--
Business combinations, net of cash acquired	--	--
Purchases of property and equipment	(27,699)	(1,100)
Purchase of cost method investment	--	--
Other	--	--
Net cash (used in) investing activities	(112,934)	(21,100)
Cash flows from financing activities		
Proceeds from borrowings on convertible senior notes, net of issuance costs	--	--
Proceeds from issuance of warrants	--	--
Purchase of convertible senior notes hedges	--	--
Proceeds from issuance of common stock from employee equity plans	2,615	2,100
Principal payments on capital lease obligations	(1,123)	(2,100)
Shares repurchased for tax withholdings on vesting of restricted stock	--	(6,100)
Other	91	4,100
Net cash provided by (used in) financing activities	1,583	(7,100)
Effect of exchange rate changes	(183)	3,100
Net increase (decrease) in cash and cash equivalents	(70,492)	(21,100)
Cash and cash equivalents at the beginning of period	262,634	41,100
Cash and cash equivalents at the end of period	\$ 192,142	\$ 19,900

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2014

(in thousands, except per share data)

(unaudited)

	GAAP		Share-Based Compensation
Costs and expenses:			
Costs of subscription services	\$ 27,426		\$ (1,959)
Costs of professional services	44,363		(4,214)
Product development	85,270		(19,191)
Sales and marketing	80,681		(8,678)
General and administrative	28,796		(12,966)
Operating loss	(51,466	)	47,008
Operating margin	(23.9	)%	21.9
Other expense, net	(8,047)	--
Loss before provision for income taxes	(59,513	)	47,008
Provision for income taxes	399		--
Net loss	\$ (59,912)	\$ 47,008
Net loss per share, basic and diluted (1)	\$ (0.33)	\$ 0.26

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(1) Calculated based upon 184,310 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions and amortization of acquisition-relate

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2013

(in thousands, except per share data)

(unaudited)

	GAAP		Share-Based Compensation
Costs and expenses:			
Costs of subscription services	\$ 18,076		\$ (783
Costs of professional services	30,515		(1,559
Product development	49,349		(7,032
Sales and marketing	54,051		(4,583
General and administrative	16,280		(5,726
Operating loss	(40,399	)	19,683
Operating margin	(31.6	)%	15.4
Other expense, net	(6,893)	--
Loss before provision for income taxes	(47,292	)	19,683
Provision for income taxes	242		--
Net loss	\$ (47,534)	\$ 19,683
Net loss per share, basic and diluted (1)	\$ (0.27)	\$ 0.11

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(1) Calculated based upon 174,385 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions.

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Workday, Inc.**Reconciliation of GAAP to Non-GAAP Data**

Nine Months Ended October 31, 2014

(in thousands, except per share data)


(unaudited)

	GAAP		Share-Based Compensation	
Costs and expenses:				
Costs of subscription services	\$ 73,258		\$ (4,622)
Costs of professional services	121,590		(9,931)
Product development	227,905		(46,796)
Sales and marketing	227,371		(22,807)
General and administrative	76,781		(32,508)
Operating loss	(165,318	)	116,664	
Operating margin	(29.4	)%	20.8	%
Other expense, net	(21,999)	--	
Loss before provision for income taxes	(187,317	)	116,664	
Provision for income taxes	1,199		--	
Net loss	\$ (188,516)	\$ 116,664	
Net loss per share, basic and diluted (1)	\$ (1.03)	\$ 0.64	


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(1) Calculated based upon 182,770 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions and amortization of acquisition-relate


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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2013

(in thousands, except per share data)

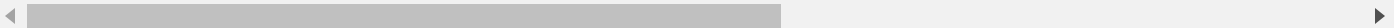
(unaudited)

	GAAP		Share-Based Compensation	
Costs and expenses:				
Costs of subscription services	\$ 49,333		\$ (1,446)
Costs of professional services	76,711		(2,835)
Product development	126,799		(12,404)
Sales and marketing	136,565		(7,431)
General and administrative	42,970		(12,766)
Operating loss	(105,306	)	36,882	
Operating margin	(32.2	)%	11.3	%
Other expense, net	(10,628)	--	
Loss before provision for income taxes	(115,934	)	36,882	
Provision for income taxes	593		--	
Net loss	\$ (116,527)	\$ 36,882	
Net loss per share, basic and diluted (1)	\$ (0.68)	\$ 0.22	

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(1) Calculated based upon 171,269 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions.

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Workday, Inc.**Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows
(A Non-GAAP Financial Measure)**

(in thousands)

(unaudited)

	Three Months Ended October 31, 2014
GAAP cash flows from operating activities	\$ 41,042
Capital expenditures	(27,699)
Property and equipment acquired under capital lease	--
Free cash flows	\$ 13,343

GAAP cash flows from operating activities
Capital expenditures
Property and equipment acquired under capital lease
Purchase of other intangible assets
Free cash flows

**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 loss, non-GAAP net loss per share and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. The non-GAAP financial measures non-GAAP operating loss and non-GAAP net loss per share differ from GAAP in that they exclude share-based compensation, employer payroll taxes on employee stock transactions, amortization of acquisition-related intangible assets and non-cash interest expense related to our convertible senior notes, as applicable. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures, assets acquired under a capital lease and purchased other (non-acquisition related) intangible assets as a reduction to cash flows.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, and for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance and the ability of operations to generate cash.

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, as they exclude expenses that are not reflective of ongoing operating results. 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 future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

Management believes excluding the following items from the most directly comparable GAAP measures is useful to investors and others in assessing Workday's operating performance due to the following factors:

- Share-based compensation. 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 in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted share awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and the Employee Stock Purchase Plan, which is an element of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- Other Operating Expenses. Other operating expenses included employer payroll taxes on employee stock transactions for the three and nine months ended October 31, 2014 and 2013 and amortization of acquisition-related intangible assets for the three and nine months ended October 31, 2014. The amount of employer payroll taxes on share-based compensation 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 the ongoing operations.
- Amortization of debt discount and issuance costs. Under GAAP, we are 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. Accordingly, for GAAP purposes we are 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 are excluded from management's assessment of our operating performance because management believes that these non-cash expenses are not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of the company's operational performance.

Additionally, we believe that the non-GAAP financial measure, free cash flows, is meaningful to investors because we review cash flows generated from or used in operations after deducting capital expenditures, whether purchased or leased, and purchased other intangible assets, due to the fact that these expenditures are considered to be an ongoing operational component of our business. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

The use of non-GAAP operating loss and net loss per share has 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.

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