



NEWS RELEASE

Workday Announces Fiscal 2017 Second Quarter Financial Results

2016-08-24

Total Revenues of \$377.7 Million, Up 34% Year Over Year; Subscription Revenues of \$306.2 Million, Up 37% Year Over Year

PLEASANTON, CA--(Marketwired - Aug 24, 2016) - [Workday, Inc.](#) (NYSE: WDAY), a leader in enterprise cloud applications for [finance](#) and [human resources](#), today announced results for the fiscal second quarter ended July 31, 2016.

- Total revenues were \$377.7 million, an increase of 34% from the second quarter of fiscal 2016. Subscription revenues were \$306.2 million, an increase of 37% from the same period last year.
- Operating loss was \$86.9 million, or negative 23.0% of revenues, compared to an operating loss of \$67.6 million, or negative 23.9% of revenues, in the same period last year. Non-GAAP operating profit for the second quarter was \$5.9 million, or 1.6% of revenues, compared to a non-GAAP operating loss of \$0.7 million, or negative 0.3% of revenues, in the same period last year.¹
- Net loss per basic and diluted share was \$0.55, compared to a net loss per basic and diluted share of \$0.37 in the second quarter of fiscal 2016. Non-GAAP net loss per basic and diluted share was \$0.04, compared to a non-GAAP net income per basic and diluted share of \$0.02 for the same period last year.¹
- Operating cash flows for the second quarter were \$6.3 million and free cash flows were negative \$20.3 million. For the trailing twelve months, operating cash flows were \$319.0 million and free cash flows were \$178.1 million.²

- Cash, cash equivalents and marketable securities were approximately \$2.1 billion as of July 31, 2016. Unearned revenues were \$979.1 million, a 43.3% increase from the same period last year.

"We delivered record second quarter results with solid customer momentum and strong competitive win rates," said Aneel Bhusri, co-founder and CEO, Workday. "The results were well balanced across our key initiatives as we saw consistent strength across product lines, industries, and geographies and we are proud to welcome our new largest customer based in the APJ region."

"We are very pleased with our strong second quarter results," said Robynne Sisco, chief financial officer, Workday. "We again generated record quarterly revenues and strong trailing twelve month operating cash flows. Looking ahead, we anticipate third quarter subscription revenues to be within a range of \$331 to \$333 million and third quarter total revenues to be \$398 to \$400 million."

Recent Highlights

- Workday had the second strongest quarter for new Workday Financial Management customers in company history, and the strongest quarter for new Workday Financial Management customers in EMEA.
- Workday continued to see strong global adoption of Workday Human Capital Management, including an expanded partnership with IBM to support its entire global workforce; Kering and Repsol based in the EMEA region; and Samsung, Qantas, and Air New Zealand based in the APJ region.
- Workday achieved the highest and furthest position in the leaders quadrant of the first-ever Gartner Magic Quadrant for Cloud Human Capital Management Suites for Midmarket and Large Enterprises.(a)
- Workday acquired Platfora, a leading provider of operational analytics and data discovery tools that enable companies to visually interact with and analyze petabyte-scale data in seconds.

Workday plans to host a conference call today to review its second 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 profit (loss) and non-GAAP net income (loss) per share exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, and debt discount and issuance costs associated with convertible notes. 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 (excluding owned real estate projects). See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

(a) Gartner "Magic Quadrant for Cloud HCM Suites for Midmarket and Large Enterprises," by Ron Hanscome, Chris Pang, Jeff Freyermuth, Helen Poitevin, Melanie Lougee, Sam Grinter, 16 June 2016.

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. More than 1,000 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 third 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 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 April 30, 2016 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

Unearned revenue

Total current liabilities

Convertible senior notes, net

Unearned revenue, noncurrent

Other liabilities

Total liabilities

Stockholders' equity:

Common stock

Additional paid-in capital

Accumulated other comprehensive income (loss)

Accumulated deficit

Total stockholders' equity

Total liabilities and stockholders' equity

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Workday, Inc.**Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

(unaudited)

	Three Months Ended July 31, 2016
Revenues:	
Subscription services	\$ 306,228
Professional services	71,495
Total revenues	377,723
Costs and expenses(1):	
Costs of subscription services	51,379
Costs of professional services	66,473
Product development	161,886
Sales and marketing	139,177
General and administrative	45,705
Total costs and expenses	464,620
Operating loss	(86,897)
Other expense, net	(21,193)
Loss before provision for (benefit from) income taxes	(108,090)
Provision for (benefit from) income taxes	(65)
Net loss	\$ (108,025)
Net loss per share, basic and diluted	\$ (0.55)
Weighted-average shares used to compute net loss per share, basic and diluted	197,223


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

Costs of subscription services	\$ 4,968
Costs of professional services	5,969
Product development	38,314
Sales and marketing	20,844
General and administrative	18,127


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

(in thousands)

(unaudited)

	Three Months Ended	
	July 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (108,025	) \$ (69,427
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	26,662	19,888
Share-based compensation expenses	88,222	64,764
Amortization of deferred costs	6,140	7,735
Amortization of debt discount and issuance costs	6,690	6,336
Gain on sale of cost method investment	(65	) (3,220
Impairment of cost method investment	15,000	--
Other	1,918	(2,119
Changes in operating assets and liabilities, net of business combinations:		
Accounts receivable	(55,992	) (27,570
Deferred costs	(10,486	) (7,082
Prepaid expenses and other assets	(11,902	) (7,806
Accounts payable	1,542	1,428
Accrued expense and other liabilities	(6,517	) 2,590
Unearned revenue	53,071	29,665
Net cash provided by (used in) operating activities	6,258	15,188
Cash flows from investing activities		
Purchases of marketable securities	(557,180	) (476,477
Maturities of marketable securities	539,315	429,181
Sales of available-for-sale securities	28,652	19,524
Business combinations, net of cash acquired	(3,670	) (7,961
Owned real estate projects	(6,788) --
Capital expenditures, excluding owned real estate projects	(26,539	) (25,469
Purchases of cost method investments	(200	) (15,750
Sale of cost method investment	315	3,538
Change in restricted cash	(4,000) --
Other	(684) --
Net cash provided by (used in) investing activities	(30,779	) (73,400
Cash flows from financing activities		
Proceeds from issuance of common stock from employee equity plans	25,395	19,172
Principal payments on capital lease obligations	--	(1,016
Other	195	362
Net cash provided by (used in) financing activities	25,590	18,518
Effect of exchange rate changes	(144	) (210
Net increase (decrease) in cash and cash equivalents	925	(39,900
Cash and cash equivalents at the beginning of period	404,604	270,481
Cash and cash equivalents at the end of period	\$ 405,529	\$ 230,581
Supplemental cash flow data		
Cash paid for interest	\$ 3,241	\$ 3,211

Cash paid for taxes	3,566	418
Non-cash investing and financing activities:		
Vesting of early exercise stock options	\$ 460	\$ 472
Property and equipment, accrued but not paid	11,426	18,642
Non-cash additions to property and equipment	394	323

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2016

(in thousands, except percentages and per share data)

(unaudited)

	GAAP		Share-Based Compensation Expenses		Of
					Ex
Costs and expenses:					
Costs of subscription services	\$ 51,379		\$ (4,968)	\$
Costs of professional services	66,473		(5,969)	
Product development	161,886		(38,314)	
Sales and marketing	139,177		(20,844)	
General and administrative	45,705		(18,127)	
Operating income (loss)	(86,897	)	88,222		
Operating margin	(23.0	)	23.4	%	%
Other income (expense), net	(21,193)	--		
Income (loss) before provision for (benefit from) income taxes	(108,090	)	88,222		
Provision for (benefit from) income taxes	(65)	--		
Net income (loss)	\$ (108,025)	\$ 88,222		\$
Net income (loss) per share (1)	\$ (0.55)	\$ 0.45		\$

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- (1) Calculated based upon 197,223 basic and diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$3.2 million, and development expenses.

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2015

(in thousands, except percentages and per share data)

(unaudited)

	GAAP		Share-Based Compensation Expenses		Oth
Costs and expenses:					
Costs of subscription services	\$ 35,287		\$ (3,173	)	\$ (7
Costs of professional services	56,792		(5,144	)	(1
Product development	115,345		(28,632	)	(1
Sales and marketing	106,430		(13,222	)	(3
General and administrative	36,482		(14,593	)	(5
Operating income (loss)	(67,640	)	64,764		2,
Operating margin	(23.9)	%	22.9		% 0.
Other income (expense), net	(3,779)	--		--
Income (loss) before provision for (benefit from) income taxes	(71,419	)	64,764		2,
Provision for (benefit from) income taxes	(1,998)	--		--
Net income (loss)	\$ (69,421)	\$ 64,764		\$ 2,
Net income (loss) per share (1)	\$ (0.37)	\$ 0.34		\$ 0.

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- (1) GAAP net loss per share calculated based upon 189,360 basic and diluted weighted-average shares of common stock. Non-GAAP net loss per share is calculated based upon 189,360 basic and diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$1.8 million, and development expenses.

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Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2016

(in thousands, except percentages and per share data)

(unaudited)

	GAAP		Share-Based Compensation Expenses		Other Expenses
Costs and expenses:					
Costs of subscription services	\$ 100,579		\$ (9,365	)	\$ 109,944
Costs of professional services	125,900		(11,262	)	137,162
Product development	303,664		(71,282	)	374,946
Sales and marketing	266,668		(39,846	)	306,514
General and administrative	86,888		(34,702	)	121,590
Operating income (loss)	(160,546	)	166,457		5,911
Operating margin	(22.2)	%	23.0		%
Other income (expense), net	(27,031	)	--		(27,031)
Income (loss) before provision for (benefit from) income taxes	(187,577	)	166,457		(21,120)
Provision for (benefit from) income taxes	1,070		--		1,070
Net income (loss)	\$ (188,647)	\$ 166,457		\$ (22,190)
Net income (loss) per share (1)	\$ (0.96)	\$ 0.85		\$ (0.11)

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- (1) GAAP net loss per share calculated based upon 195,887 basic and diluted weighted-average shares of common stock. Non-GAAP net loss per share is calculated based upon 195,887 basic and diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$8.3 million, and other operating expenses including research and development expenses.

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Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2015

(in thousands, except percentages and per share data)

(unaudited)

	GAAP		Share-Based Compensation Expenses		Other
Costs and expenses:					
Costs of subscription services	\$ 67,069		\$ (5,221)	\$
Costs of professional services	102,924		(8,598)	
Product development	214,680		(49,443)	
Sales and marketing	201,325		(21,587)	
General and administrative	68,699		(27,189)	
Operating income (loss)	(121,044	)	112,038		
Operating margin	(22.7	)	21.0	%	%
Other income (expense), net	(11,015)	--		
Income (loss) before provision for (benefit from) income taxes	(132,059	)	112,038		
Provision for (benefit from) income taxes	(1,080)	--		
Net income (loss)	\$ (130,979)	\$ 112,038		\$
Net income (loss) per share (1)	\$ (0.70)	\$ 0.59		\$

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- (1) Calculated based upon 188,382 basic and diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$5.5 million, and development expenses.

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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 Ju 2016
Net cash provided by (used in) operating activities	\$ 6,258
Capital expenditures, excluding owned real estate projects	(26,539)
Free cash flows	\$ (20,281)
	Trailing Twelve Months July 31, 2016
Net cash provided by (used in) operating activities	\$ 318,974
Capital expenditures, excluding owned real estate projects	(140,895)
Free cash flows	\$ 178,079

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), non-GAAP net income (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 of non-GAAP operating income (loss) and non-GAAP net income (loss) per share differ from GAAP in that they exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions,

amortization of acquisition-related intangible assets, and non-cash interest expense related to our convertible senior notes. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures (excluding owned real estate projects) as a reduction to cash flows.

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 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 flows generated by normal recurring activities to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

Management believes excluding the following items from the GAAP Condensed Consolidated Statement 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 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 stock unit 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 shares offered under our Employee Stock Purchase Plan, which are elements 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 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 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 certain capital expenditures that are considered to be an ongoing operational component of our business. Capital expenditures deducted from cash flows from operations do not include purchases of land and buildings, and construction costs of our new development center and of other owned buildings. We exclude these owned real estate projects as they are infrequent, non-recurring in nature and distinctly separate from our ongoing business operations. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

The use of non-GAAP operating income (loss) and non-GAAP net income (loss) per share measures 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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