NEWS RELEASE

Workday Announces Fiscal 2019 Second Quarter Financial Results

2018-09-04

Total Revenues of $671.7 Million, Up 27.9% Year Over Year

PLEASANTON, Calif., Sept. 04, 2018 (GLOBE NEWSWIRE) -- **Workday, Inc.** (NASDAQ: WDAY), a leader in enterprise cloud applications for finance and human resources, today announced results for the fiscal 2019 second quarter ended July 31, 2018.

Fiscal Second Quarter Results

- Total revenues were $671.7 million, an increase of 27.9% from the second quarter of fiscal 2018. Subscription revenues were $565.7 million, an increase of 30.2% from the same period last year.

- Operating loss was $89.0 million, or negative 13.2% of revenues, compared to an operating loss of $81.6 million, or negative 15.5% of revenues, in the same period last year. Non-GAAP operating income for the second quarter was $68.1 million, or 10.1% of revenues, compared to a non-GAAP operating income of $49.0 million, or 9.3% of revenues, in the same period last year.1

- Net loss per basic and diluted share was flat at $0.40 when compared to the prior year period. Non-GAAP net income per diluted share was $0.31, compared to a non-GAAP net income per diluted share of $0.24 in the same period last year.2

- Operating cash flows were $57.6 million and free cash flows were $4.3 million. For the trailing twelve months, operating cash flows were $512.4 million and free cash flows were $337.8 million, representing year over year

growth of 36.1% and 36.5%, respectively.3

- Cash, cash equivalents, and marketable securities were $3.0 billion as of July 31, 2018. Unearned revenues were approximately $1.5 billion, a 21.3% increase from the same period last year.

Comments on the News

"Q2 was another strong quarter. We once again increased the number of both finance and HR customers in the Fortune 500 and made significant progress on our acquisition of Adaptive Insights to further enable customers to plan, execute, and analyze all in one system," said Aneel Bhusri, co-founder and CEO, Workday. "With our focused product strategy, continued investment in opening our platform, and relentless commitment to customer success, we continue to add levers that drive enduring growth and our long-term position as the trusted partner for finance, HR, and business transformation."

"We executed extremely well in Q2, delivering another strong quarter of outperformance," said Robynne Sisco, co-president and chief financial officer, Workday. "Based on our second quarter results, and inclusive of the acquisition of Adaptive Insights, we are raising our fiscal 2019 revenue outlook and now expect subscription revenue of $2.341 to $2.348 billion, or growth of 31%. We expect our third quarter subscription revenue to be between $609 and $611 million, representing 31% to 32% growth. We are excited to welcome Adaptive Insights to Workday and look forward to the future of the combined company."

Recent Highlights

- Workday **unveiled** its plans to acquire Adaptive Insights, a leading cloud-based company for modernizing business planning, and most recently **announced** the completion of the acquisition, with the company operating as Adaptive Insights, a Workday company.
- Workday was ranked #4 on the list of the **100 Best Workplaces for Millennials** by Fortune and Great Place to Work Institute. In addition, Workday was ranked #6 on the list of the **Best Large Workplaces in Europe** by Great Place to Work Institute.
- Underscoring its ongoing commitment to privacy, Workday **announced** its support for comprehensive U.S. and global privacy laws based on the Organization for Economic Cooperation and Development's Fair Information Principles.
- Workday acquired **Stories.bi** and **Rallyteam** – two companies with expertise in leveraging machine learning – to power Workday products with even more intelligence so customers can better understand and react to business needs.

Earnings Call Details

Workday plans to host a conference call today to review its fiscal 2019 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.

1 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.

2 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.

3 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.

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. 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." 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 number of shares granted and market price that are not ascertainable.

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding Workday's fiscal year 2019 subscription revenue projections and growth, products, and its acquisition of Adaptive Insights. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plans," 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) risks related to our ability to successfully integrate Adaptive Insights' operations or failure to achieve the expected benefits of this or any other acquisition transaction; (ii) our ability to implement our plans, objectives, and other expectations with respect to the Adaptive Insights business or that of any other acquired company; (iii) breaches in our security measures, unauthorized access to our customers' data or disruptions in our data center operations; (iv) our ability to manage our growth effectively; (v) competitive factors, including pricing pressures, industry consolidation, entry of new competitors and new applications, and marketing initiatives by our competitors; (vi) the development of the market for enterprise cloud services; (vii) acceptance of our applications and services by customers; (viii) adverse changes in general economic or market conditions; (ix) delays or reductions in information technology spending; and (x) changes in sales, which 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, 2018 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)

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Assets

Current assets:
Cash and cash equivalents
Marketable securities
Trade and other receivables, net
Deferred costs
Prepaid expenses and other current assets
Total current assets
Property and equipment, net
Deferred costs, noncurrent
Acquisition-related intangible assets, net
Goodwill
Other assets
Total assets

Liabilities and stockholders' equity

Current liabilities:
Accounts payable
Accrued expenses and other current liabilities
Accrued compensation
Unearned revenue
Current portion of convertible senior notes, net
Total current liabilities
Convertible senior notes, net
Unearned revenue, noncurrent
Other liabilities
Total liabilities
Stockholders' equity:
Common stock
Additional paid-in capital
Treasury stock
Accumulated other comprehensive income (loss)
Accumulated deficit
Total stockholders' equity
Total liabilities and stockholders' equity

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

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	Three Month 2018
Revenues:	
Subscription services	$ 565,659
Professional services	106,061
Total revenues	671,720
Costs and expenses (1):	
Costs of subscription services	87,523
Costs of professional services	112,707
Product development	292,840
Sales and marketing	202,464
General and administrative	65,168
Total costs and expenses	760,702
Operating loss	(88,982)
Other income (expense), net	1,613
Loss before provision for (benefit from) income taxes	(87,369)
Provision for (benefit from) income taxes	(1,213)
Net loss	$ (86,156)
Net loss per share, basic and diluted	$ (0.40)
Weighted-average shares used to compute net loss per share, basic and diluted	215,932

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

Costs of subscription services	$ 8,5
Costs of professional services	12,518
Product development	75,354
Sales and marketing	29,367
General and administrative	21,303

Workday, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

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Cash flows from operating activities	
Net loss	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	
Share-based compensation expenses	
Amortization of deferred costs	
Amortization of debt discount and issuance costs	
Other	
Changes in operating assets and liabilities, net of business combinations:	
Trade and other receivables, net	
Deferred costs	
Prepaid expenses and other assets	
Accounts payable	
Accrued expenses and other liabilities	
Unearned revenue	
Net cash provided by (used in) operating activities	
Cash flows from investing activities	
Purchases of marketable securities	
Maturities of marketable securities	
Sales of marketable securities	
Owned real estate projects	
Capital expenditures, excluding owned real estate projects	
Business combinations, net of cash acquired	
Purchase of other intangible assets	
Purchases of non-marketable equity and other investments	
Sale and maturities of non-marketable equity and other investments	
Net cash provided by (used in) investing activities	
Cash flows from financing activities	
Payments on convertible senior notes	
Proceeds from issuance of common stock from employee equity plans	
Other	
Net cash provided by (used in) financing activities	
Effect of exchange rate changes	
Net increase (decrease) in cash, cash equivalents, and restricted cash	
Cash, cash equivalents, and restricted cash at the beginning of period	
Cash, cash equivalents, and restricted cash at the end of period	

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	Three Months End 2018
Supplemental cash flow data	
Cash paid for interest, net of amounts capitalized	$ 14
Cash paid for income taxes	1,492
Non-cash investing and financing activities:	
Vesting of early exercised stock options	$ —
Purchases of property and equipment, accrued but not paid	63,052
Non-cash additions to property and equipment	307

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Reconciliation of cash, cash equivalents, and restricted cash as shown in the statements of cash flows

Cash and cash equivalents	
Restricted cash included in Other assets	
Total cash, cash equivalents, and restricted cash	

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Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2018

(in thousands, except percentages and per share data)

(unaudited)

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	GAAP		Share-Based Compensation Expenses
Costs and expenses:			
Costs of subscription services	$ 87,523		$ (8,521)
Costs of professional services	112,707		(12,518)
Product development	292,840		(75,354)
Sales and marketing	202,464		(29,367)
General and administrative	65,168		(21,303)
Operating income (loss)	(88,982)		147,063
Operating margin	(13.2)	%	21.9
Other income (expense), net	1,613		—
Income (loss) before provision for (benefit from) income taxes	(87,369)		147,063
Provision for (benefit from) income taxes	(1,213)		—
Net income (loss)	$ (86,156)		$ 147,063
Net income (loss) per share (1)	$ (0.40)		$ 0.68

(1) GAAP net loss per share is calculated based upon 215,932 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,404 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $4.7 million and amortization of acquisition-related intangible assets of $5.3 million.

(3) 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 interim reporting periods. For fiscal 2019, we have determined the projected non-GAAP tax rate to be 17%.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended July 31, 2017

(in thousands, except percentages and per share data)

(unaudited)

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| | GAAP | | Share-
Comp
Expen |
|---|---|---|---|
| Costs and expenses: | | | |
| Costs of subscription services | $ 65,931 | | $ (6,5 |
| Costs of professional services | 92,264 | | (9,301) |
| Product development | 221,103 | | (56,923 |
| Sales and marketing | 171,952 | | (25,942 |
| General and administrative | 55,699 | | (22,777 |
| Operating income (loss) | (81,629) | | 121,523 |
| Operating margin | (15.5) | % | 23.1 |
| Other income (expense), net | 938 | | — |
| Income (loss) before provision for (benefit from) income taxes | (80,691) | | 121,523 |
| Provision for (benefit from) income taxes | 1,841 | | — |
| Net income (loss) | $ (82,532) | | $ 121 |
| Net income (loss) per share (1) | $ (0.40) | | $ 0.59 |

(1) GAAP net loss per share is calculated based upon 207,028 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 225,610 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $4.3 million and amortization of acquisition-related intangible assets of $4.8 million.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2018

(in thousands, except percentages and per share data)

(unaudited)

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	GAAP		Share-Based Compensation Expenses
Costs and expenses:			
Costs of subscription services	$ 167,768		$ (16,398)
Costs of professional services	210,433		(23,310)
Product development	556,424		(143,865)
Sales and marketing	395,235		(54,979)
General and administrative	120,749		(41,170)
Operating income (loss)	(160,246)		279,722
Operating margin	(12.4)	%	21.7
Other income (expense), net	(2,235)		—
Income (loss) before provision for (benefit from) income taxes	(162,481)		279,722
Provision for (benefit from) income taxes	(1,915)		—
Net income (loss)	$ (160,566)		$ 279,722
Net income (loss) per share (1)	$ (0.75)		$ 1.30

(1) GAAP net loss per share is calculated based upon 214,517 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 236,706 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $19.0 million and amortization of acquisition-related intangible assets of $10.4 million.

(3) 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 interim reporting periods. For fiscal 2019, we have determined the projected non-GAAP tax rate to be 17%.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2017

(in thousands, except percentages and per share data)

(unaudited)

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	GAAP		Share Comp Expe
Costs and expenses:			
Costs of subscription services	$ 125,729		$ (12
Costs of professional services	169,177		(17,32
Product development	417,542		(107,9
Sales and marketing	327,661		(49,10
General and administrative	106,901		(42,66
Operating income (loss)	(141,829)		229,31
Operating margin	(14.1)	%	22.8
Other income (expense), net	(725)		—
Income (loss) before provision for (benefit from) income taxes	(142,554)		229,31
Provision for (benefit from) income taxes	4,022		—
Net income (loss)	$ (146,576)		$ 22
Net income (loss) per share (1)	$ (0.71)		$ 1.1

(1) GAAP net loss per share is calculated based upon 205,453 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 223,825 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $12.8 million and amortization of acquisition-related intangible assets of $9.7 million.

Workday, Inc.

Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows

(A Non-GAAP Financial Measure)

(in thousands)

(unaudited)

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	Three Months Ende 2018
Net cash provided by (used in) operating activities	$ 57,616
Capital expenditures, excluding owned real estate projects	(53,346)
Free cash flows	$ 4,270

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	T 2
Net cash provided by (used in) operating activities	$
Capital expenditures, excluding owned real estate projects	(
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 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. 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 of 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 of acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects. 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 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.

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 forfeitures 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 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 and September 2017. 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 Workday's operational performance.

- 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 interim 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 also assumes no new acquisition activity in the three-year period and 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 2019, we have determined the projected non-GAAP tax rate to be 17%. 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.

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 or construction costs of our new development center and of other owned buildings. We exclude these owned real estate projects as they are infrequent in nature. For the current fiscal year, these costs primarily represent the construction of our new development center, which is anticipated to be completed in fiscal 2020.

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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