



NEWS RELEASE

# Workday Announces Fiscal 2019 Third Quarter Financial Results

2018-11-29

Total Revenues of \$743.2 Million, Up 33.8% Year Over Year

PLEASANTON, Calif., Nov. 29, 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 third quarter ended October 31, 2018.

## Fiscal Third Quarter Results

- Total revenues were \$743.2 million, an increase of 33.8% from the third quarter of fiscal 2018. Subscription revenues were \$624.4 million, an increase of 34.7% from the same period last year.
- Operating loss was \$182.8 million, or negative 24.6% of revenues, compared to an operating loss of \$80.1 million, or negative 14.4% of revenues, in the same period last year. Non-GAAP operating income for the third quarter was \$49.7 million, or 6.7% of revenues, compared to a non-GAAP operating income of \$50.1 million, or 9.0% of revenues, in the same period last year.<sup>1</sup>
- Net loss per basic and diluted share was \$0.70, compared to a net loss per basic and diluted share of \$0.41 in the third quarter of fiscal 2018. 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.<sup>2</sup>
- Operating cash flows were \$114.3 million and free cash flows were \$58.9 million.<sup>3</sup>

- Cash, cash equivalents, and marketable securities were \$1.6 billion as of October 31, 2018. Unearned revenues were approximately \$1.6 billion, a 27.8% increase from the same period last year.

## Comments on the News

"We had a great third quarter and continue to see significant momentum across our suite of products," said Aneel Bhusri, co-founder and CEO, Workday. "We extended our market leadership in HCM, welcoming more Fortune 500 customers to the Workday community, and accelerated adoption of Workday Financial Management as more finance organizations move to the cloud. As we look to the remainder of fiscal 2019, we are confident that our commitment to customer satisfaction and product innovation, coupled with our strong company culture, will continue to deliver meaningful growth and customer success."

"We're pleased with our strong performance in Q3, which resulted in accelerated growth across our core business metrics and gives us great momentum heading into year-end," said Robynne Sisco, co-president and chief financial officer, Workday. "The strength in our business is allowing us to raise our fiscal 2019 outlook and we now expect subscription revenue of \$2.375 to \$2.377 billion, or growth of 33%. We continue to prioritize investing in long-term growth initiatives, while delivering solid operating and cash flow margins over time."

## Recent Highlights

- Workday was ranked #1 on [the Fortune Future 50](#) list, which recognizes the global companies with the best prospects for long-term growth. In addition, Workday was ranked #3 on the list of the [100 Best Workplaces for Women](#) by Fortune and Great Place to Work Institute.
- Building on the Adaptive Insights acquisition momentum, Workday [announced](#) it went live on Adaptive Insights Business Planning Cloud in just 10 weeks. In addition, Adaptive Insights [announced](#) it extended Business Planning Cloud with a new strategic workforce planning solution that empowers organizations to develop comprehensive workforce plans that seamlessly integrate with an organization's larger plan.
- Workday held its 12th annual customer conference, [Workday Rising](#), in Las Vegas as well as its fifth annual European customer conference, [Workday Rising Europe](#), in Vienna. Between both conferences, Workday welcomed more than 13,000 attendees as well as once again revealed its annual customer satisfaction rating, which came in at 98 percent.
- Workday [announced](#) the general availability of its skills cloud, a universal skills language that helps organizations cleanse, understand, and relate job skills data. Using its skills cloud as a foundation in Workday HCM, Workday aims to help customers more easily tap talent inside and outside of their organizations.
- Workday [unveiled](#) Workday People Analytics, which leverages augmented analytics powered by artificial intelligence to provide customers with key metrics - accompanied by explanatory narratives called stories - on the most critical activities in their business.

- Demonstrating its ongoing commitment to comprehensive privacy legislation, Workday [shared](#) its privacy principles – privacy first, innovate responsibly, and safeguard fairness and trust – which enable customers to accelerate innovation in their workplaces while enabling the protection of their data.

## Earnings Call Details

Workday plans to host a conference call today to review its fiscal 2019 third 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 customer success. 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 July 31, 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.

© 2018. 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.

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

[View Full Screen](#)

---

**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

---

Workday, Inc.

**Condensed Consolidated Statements of Operations**

(in thousands, except per share data)

(unaudited)

[View Full Screen](#)

---

**Revenues:**

Subscription services  
Professional services  
Total revenues

**Costs and expenses (1):**

Costs of subscription services  
Costs of professional services  
Product development  
Sales and marketing  
General and administrative  
Total costs and expenses  
Operating loss  
Other income (expense), net  
Loss before provision for (benefit from) income taxes  
Provision for (benefit from) income taxes

**Net loss**

**Net loss per share, basic and diluted**

**Weighted-average shares used to compute net loss per share, basic and diluted**



View Full Screen

---

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

Costs of subscription services  
Costs of professional services  
Product development  
Sales and marketing  
General and administrative



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



(unaudited)

[View Full Screen](#)

---

### **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

Sales and maturities of non-marketable equity and other investments

Other

Net cash provided by (used in) investing activities

### **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

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



[View Full Screen](#)

**Supplemental cash flow data**

- Cash paid for interest, net of amounts capitalized
- Cash paid for income taxes
- Non-cash investing and financing activities:
  - Vesting of early exercised stock options
  - Purchases of property and equipment, accrued but not paid
  - Non-cash additions to property and equipment



[View Full Screen](#)

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

- Cash and cash equivalents
- Restricted cash included in Prepaid expenses and other current assets
- Restricted cash included in Other assets
- Total cash, cash equivalents, and restricted cash



**Workday, Inc.**  
**Reconciliation of GAAP to Non-GAAP Data**  
Three Months Ended October 31, 2018  
(in thousands, except percentages and per share data)  
(unaudited)



View Full Screen

	GAAP		Share-Based Compensation Expenses		Other Expenses
Costs and expenses:					
Costs of subscription services	\$ 103,310		\$ (10,205)		\$ (11,400)
Costs of professional services	119,691		(15,702)		(495)
Product development	318,003		(86,304)		(3,082)
Sales and marketing	246,156		(38,720)		(7,717)
General and administrative	138,784		(57,993)		(758)
Operating income (loss)	(182,755)		208,924		23,484
Operating margin	(24.6)	%	28.1	%	3.2
Other income (expense), net	26,617		—		—
Income (loss) before provision for (benefit from) income taxes	(156,138)		208,924		23,484
Provision for (benefit from) income taxes	(2,807)		—		—
Net income (loss)	\$ (153,331)		\$ 208,924		\$ 23,484
Net income (loss) per share (1)	\$ (0.70)		\$ 0.96		\$ 0.11

- (1) GAAP net loss per share is calculated based upon 217,694 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 238,590 diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$4.2 million and amortization of acquisition-related intangible assets of \$19.3 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 October 31, 2017

(in thousands, except percentages and per share data)

(unaudited)

View Full Screen

	GAAP		Share-B Comper Expense
Costs and expenses:			
Costs of subscription services	\$ 71,898		\$ (6,899)
Costs of professional services	91,657		(9,956)
Product development	239,588		(59,116)
Sales and marketing	176,121		(25,517)
General and administrative	56,184		(20,991)
Operating income (loss)	(80,059)		122,479
Operating margin	(14.4)	%	22.1
Other income (expense), net	(3,742)		—
Income (loss) before provision for (benefit from) income taxes	(83,801)		122,479
Provision for (benefit from) income taxes	1,745		—
Net income (loss)	\$ (85,546)		\$ 122,47
Net income (loss) per share (1)	\$ (0.41)		\$ 0.59

- (1) GAAP net loss per share is calculated based upon 209,188 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 235,341 diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$2.9 million and amortization of acquisition-related intangible assets of \$4.8 million.

**Workday, Inc.**  
**Reconciliation of GAAP to Non-GAAP Data**  
 Nine Months Ended October 31, 2018  
 (in thousands, except percentages and per share data)  
 (unaudited)

[View Full Screen](#)

	GAAP		Share-Based Compensation Expenses		Other Expenses
Costs and expenses:					
Costs of subscription services	\$ 271,078		\$ (26,603)		\$ (19,603)
Costs of professional services	330,124		(39,012)		(2,715)
Product development	874,427		(230,169)		(15,839)
Sales and marketing	641,391		(93,699)		(11,336)
General and administrative	259,533		(99,163)		(3,356)
Operating income (loss)	(343,001)		488,646		52,917
Operating margin	(16.9)	%	24.0	%	2.7
Other income (expense), net	24,382		—		—
Income (loss) before provision for (benefit from) income taxes	(318,619)		488,646		52,917
Provision for (benefit from) income taxes	(4,722)		—		—
Net income (loss)	\$ (313,897)		\$ 488,646		\$ 52,917
Net income (loss) per share (1)	\$ (1.46)		\$ 2.27		\$ 0.25

- (1) GAAP net loss per share is calculated based upon 215,588 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,293 diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$23.2 million and amortization of acquisition-related intangible assets of \$29.7 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

Nine Months Ended October 31, 2017

(in thousands, except percentages and per share data)

(unaudited)

[View Full Screen](#)

	GAAP		Share-B Comper Expense
Costs and expenses:			
Costs of subscription services	\$ 197,627		\$ (19,170)
Costs of professional services	260,834		(27,278)
Product development	657,130		(167,068)
Sales and marketing	503,782		(74,618)
General and administrative	163,085		(63,656)
Operating income (loss)	(221,888)		351,790
Operating margin	(14.2)	%	22.5
Other income (expense), net	(4,467)		—
Income (loss) before provision for (benefit from) income taxes	(226,355)		351,790
Provision for (benefit from) income taxes	5,767		—
Net income (loss)	\$ (232,122)		\$ 351,790
Net income (loss) per share (1)	\$ (1.12)		\$ 1.70

- (1) GAAP net loss per share is calculated based upon 206,715 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 232,918 diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$15.7 million and amortization of acquisition-related intangible assets of \$14.5 million.

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

[View Full Screen](#)

	<b>Three Months Ended October 2018</b>
Net cash provided by (used in) operating activities	\$ 114,296
Capital expenditures, excluding owned real estate projects	(55,427)
Free cash flows	\$ 58,869

[View Full Screen](#)

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 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 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 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% after including our acquisition of Adaptive Insights, Inc., which did not have a significant impact to this rate. 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.

**Investor Relations Contact:**

Michael Magaro

+1 (925) 379-6000

[michael.magaro@workday.com](mailto:michael.magaro@workday.com)

**Media Contact:**

Nina Oestlien

+1 (415) 828-3034

[nina.oestlien@workday.com](mailto:nina.oestlien@workday.com)