



NEWS RELEASE

Workday Announces Fiscal 2020 First Quarter Financial Results

2019-05-28

First Quarter Total Revenues of \$825.1 Million, Up 33.4% Year Over Year

PLEASANTON, Calif., May 28, 2019 (GLOBE NEWSWIRE) -- [Workday, Inc.](#) (NASDAQ: WDAY), a leader in enterprise cloud applications for [finance](#) and [human resources](#), today announced results for the fiscal 2020 first quarter ended April 30, 2019.

Fiscal First Quarter Results

- Total revenues were \$825.1 million, an increase of 33.4% from the first quarter of fiscal year 2019. Subscription revenue was \$701.0 million, an increase of 34.3% from the same period last year.
- Operating loss was \$123.4 million, or negative 15.0% of revenues, compared to an operating loss of \$71.3 million, or negative 11.5% of revenues, in the same period last year. Non-GAAP operating income for the first quarter was \$107.7 million, or 13.1% of revenues, compared to a non-GAAP operating income of \$80.8 million, or 13.1% of revenues, in the same period last year.¹
- Net loss per basic and diluted share was \$0.52, compared to a net loss per basic and diluted share of \$0.35 in the first quarter of fiscal 2019. Non-GAAP net income per diluted share was \$0.43 compared to a non-GAAP net income per diluted share of \$0.33 in the same period last year.²
- Operating cash flows were \$209.2 million.

- Cash, cash equivalents, and marketable securities were \$1.89 billion as of April 30, 2019. Unearned revenues were \$1.83 billion, a 29.3% increase from the same period last year.

Comments on the News

“Coming off the heels of an excellent fiscal year 2019, our momentum continued with a strong first quarter. We added many new customers across the globe – increasing our footprint across the Fortune 50 and 500 – and saw more existing customers expand their investment in Workday,” said Aneel Bhusri, co-founder and CEO, Workday. “Looking ahead, we believe our ability to enable more organizations to plan, execute, and analyze in one system powered by machine learning, coupled with our commitment to employee and customer success, will further solidify our foundation for enduring growth.”

“Our fiscal year 2020 got off to a great start as we delivered strong top-line growth and record non-GAAP operating profit,” said Robynne Sisco, co-president and chief financial officer, Workday. “Based on our strong first quarter results, we are raising our fiscal year 2020 outlook for subscription revenue to \$3.045 to \$3.060 billion, or growth of 28%. We expect our second quarter subscription revenue to be \$746 to \$748 million, or growth of approximately 32%. Our focus remains centered on driving strong, durable growth as we continue to invest in the business to support our long-term aspirations.”

Recent Highlights

- Workday welcomed Ann-Marie Campbell to its Board of Directors in April 2019. Ann-Marie currently serves as executive vice president of U.S. Stores for The Home Depot.
- Workday was [positioned](#) by Gartner, Inc. in the Leaders quadrant of the Magic Quadrant for Cloud Core Financial Management Suites for Midsize, Large, and Global Enterprises. Workday was acknowledged as a Leader for the third year in a row.³
- As part of its latest feature release, Workday 32, Workday delivered more than 500 new features, including deeper investments in Workday Learning and Workday Recruiting, finance-focused machine learning capabilities to help resource managers align skills resources to projects, and even deeper integration between Workday and Adaptive Insights.
- Workday, along with 10 leading federal government agencies and large corporations from the technology and financial services industries, launched [The Cybersecurity Talent Initiative](#). The first-of-its-kind, public-private [partnership](#) is focused on developing the next generation of motivated, mission-driven technologists to ensure a world-class cybersecurity workforce for the future.

- Workday was [ranked](#) #1 on San Francisco Business Times' Best Places to Work in the Bay Area list. This is the seventh time Workday has been ranked #1 on the list. Workday also [ranked](#) #1 on the UK's Best Large Workplaces list by Great Place to Work Institute.

Earnings Call Details

Workday plans to host a conference call today to review its fiscal 2020 first 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 Gartner, Magic Quadrant for Cloud Core Financial Management Suites for Midsize, Large and Global Enterprises, John Van Decker, Robert Anderson, and Greg Leiter, 13 May 2019. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, express or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

About Workday

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Use of Non-GAAP Financial Measures

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

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding Workday's ability to enable more organizations to plan, execute, and analyze in one system powered by machine learning, ability to solidify its foundation for enduring growth, employee and customer success, subscription revenue projections and growth, products, and investments in its business. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plans," "project," "looking ahead," 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 or 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 applications and services; (vii) acceptance of our applications and services by customers; (viii) adverse changes in general economic or market conditions; (ix) the regulatory, economic, and political risks associated with our international operations; (x) delays or reductions in information technology spending; and (xi) 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-K for the fiscal year ended January 31, 2019 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

Operating lease right-of-use assets

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

Operating lease liabilities

Current portion of convertible senior notes, net

Total current liabilities

Convertible senior notes, net

Unearned revenue, noncurrent

Operating lease liabilities, 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



Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

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Revenues:

Subscription services
Professional services
Total revenues

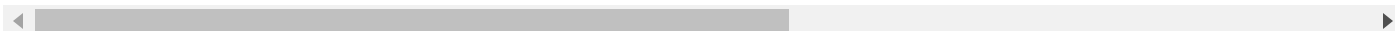
Costs and expenses (1):

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



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(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)

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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:

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

Purchases of non-marketable equity and other investments

Other

Net cash provided by (used in) investing activities

Cash flows from financing activities

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

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
 Three Months Ended April 30, 2019
 (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	\$ 112,469		\$ (10,415)
Costs of professional services	130,750		(16,150)
Product development	347,831		(91,237)
Sales and marketing	272,936		(38,854)
General and administrative	84,455		(28,579)
Operating income (loss)	(123,386)		185,235
Operating margin	(15.0)	%	22.5
Other income (expense), net	7,141		—
Income (loss) before provision for (benefit from) income taxes	(116,245)		185,235
Provision for (benefit from) income taxes	30		—
Net income (loss)	\$ (116,275)		\$ 185,235
Net income (loss) per share (1)	\$ (0.52)		\$ 0.83



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- (1) GAAP net loss per share is calculated based upon 223,309 basic and diluted weighted-average shares of common stock. Non-GAAP common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$26.5 million and are
- (3) We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
 Three Months Ended April 30, 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	\$ 80,245		\$ (7,877)
Costs of professional services	97,726		(10,792)
Product development	263,584		(68,511)
Sales and marketing	192,771		(25,612)
General and administrative	55,581		(19,867)
Operating income (loss)	(71,264)		132,659
Operating margin	(11.5)	%	21.4
Other income (expense), net	(3,848)		—
Income (loss) before provision for (benefit from) income taxes	(75,112)		132,659
Provision for (benefit from) income taxes	(702)		—
Net income (loss)	\$ (74,410)		\$ 132,659
Net income (loss) per share (1)	\$ (0.35)		\$ 0.62

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- (1) GAAP net loss per share is calculated based upon 213,055 basic and diluted weighted-average shares of common stock. Non-GAAP common stock.
 - (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$14.3 million and amortization of acquisition-related intangible assets.
 - (3) We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency.



About Non-GAAP Financial Measures

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

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business 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.

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 2020 and 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.

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

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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

Operating lease right-of-use assets

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

Operating lease liabilities

Current portion of convertible senior notes, net

Total current liabilities

Convertible senior notes, net

Unearned revenue, noncurrent

Operating lease liabilities, 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



Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

[View Full Screen](#)

Revenues:

Subscription services
Professional services
Total revenues

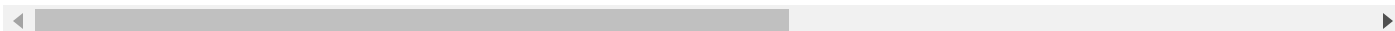
Costs and expenses (1):

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)

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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:

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

Purchases of non-marketable equity and other investments

Other

Net cash provided by (used in) investing activities

Cash flows from financing activities

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

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended April 30, 2019
(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	\$ 112,469		\$ (10,415)
Costs of professional services	130,750		(16,150)
Product development	347,831		(91,237)
Sales and marketing	272,936		(38,854)
General and administrative	84,455		(28,579)
Operating income (loss)	(123,386)		185,235
Operating margin	(15.0)	%	22.5
Other income (expense), net	7,141		—
Income (loss) before provision for (benefit from) income taxes	(116,245)		185,235
Provision for (benefit from) income taxes	30		—
Net income (loss)	\$ (116,275)		\$ 185,235
Net income (loss) per share (1)	\$ (0.52)		\$ 0.83



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- (1) GAAP net loss per share is calculated based upon 223,309 basic and diluted weighted-average shares of common stock. Non-GAAP common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$26.5 million and are
- (3) We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
 Three Months Ended April 30, 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	\$ 80,245	\$ (7,877)
Costs of professional services	97,726	(10,792)
Product development	263,584	(68,511)
Sales and marketing	192,771	(25,612)
General and administrative	55,581	(19,867)
Operating income (loss)	(71,264)	132,659
Operating margin	(11.5)	% 21.4
Other income (expense), net	(3,848)	—
Income (loss) before provision for (benefit from) income taxes	(75,112)	132,659
Provision for (benefit from) income taxes	(702)	—
Net income (loss)	\$ (74,410)	\$ 132,659
Net income (loss) per share (1)	\$ (0.35)	\$ 0.62

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- (1) GAAP net loss per share is calculated based upon 213,055 basic and diluted weighted-average shares of common stock. Non-GAAP common stock.
 - (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$14.3 million and amortization of acquisition-related intangible assets.
 - (3) We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency.



About Non-GAAP Financial Measures

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

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business 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.

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 2020 and 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.

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

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