



NEWS RELEASE

Workday Announces Fiscal 2021 Third Quarter Financial Results

2020-11-19

Third Quarter Total Revenues of \$1.11 Billion, Up 17.9% Year Over Year

PLEASANTON, Calif., Nov. 19, 2020 (GLOBE NEWSWIRE) -- [Workday, Inc.](#) (NASDAQ: WDAY), a leader in enterprise cloud applications for [finance](#) and [human resources](#), today announced results for the fiscal 2021 third quarter ended Oct. 31, 2020.

Fiscal 2021 Third Quarter Results

- Total revenues were \$1.11 billion, an increase of 17.9% from the third quarter of fiscal 2020. Subscription revenue was \$968.5 million, an increase of 21.3% from the same period last year.
- Operating loss was \$14.1 million, or negative 1.3% of revenues, compared to an operating loss of \$110.3 million, or negative 11.8% of revenues, in the same period last year. Non-GAAP operating income for the third quarter was \$268.1 million, or 24.2% of revenues, compared to a non-GAAP operating income of \$142.6 million, or 15.2% of revenues, in the same period last year.¹
- Net loss per basic and diluted share was \$0.10, compared to a net loss per basic and diluted share of \$0.51 in the third quarter of fiscal 2020. Non-GAAP net income per diluted share was \$0.86, compared to a non-GAAP net income per diluted share of \$0.53 in the same period last year.²
- Operating cash flows were \$293.8 million compared to \$258.0 million in the prior year.
- Cash, cash equivalents, and marketable securities were \$2.95 billion as of Oct. 31, 2020.

Comments on the News

"It was another strong quarter across our product portfolio with continued momentum in financial management –

which has now reached 1,000 customers. We also had some of our largest Workday Human Capital Management go-lives to-date and record customer demand on the strategic sourcing front,” said Aneel Bhusri, co-founder and co-CEO, Workday. “In this rapidly changing environment, the value of Workday in helping businesses drive and support change is clear, as more organizations focus on digital acceleration in order to meet the demands of the year and beyond. I continue to be so impressed and appreciative of our employees and customers – who are stepping up in such encouraging ways to navigate these challenging times.”

“In addition to several strategic wins in HR and finance, we also saw continued momentum selling into our existing customer base,” said Chano Fernandez, co-CEO, Workday. “Whether our employees were helping to innovate, drive awareness, close deals, or successfully supporting deployments – all in a fully virtual way – their commitment to our customers this quarter is evident, and I couldn’t be prouder. As we look ahead, I remain confident in our ability to capitalize on the growth opportunity in front of us while helping to take our customers to new heights.”

“We executed well in an uncertain environment and delivered strong results, with subscription revenue growth of 21.3% and non-GAAP operating margin of 24.2%,” said Robynne Sisco, president and chief financial officer, Workday. “Based on our strong third quarter, we are raising our fiscal 2021 subscription revenue guidance to a range of \$3.773 billion to \$3.775 billion. As we enter Q4, we are increasing our pace of investments to capitalize on the long-term opportunity that we see ahead.”

Recent Highlights

- Workday had more than 190 virtual customer go-lives – consisting of organizations using Workday as the core system of record for finance and human resources – in the third quarter. This includes Accenture, a leading global professional services company and Workday strategic partner, which is now live on Workday HCM, with more than 500,000 employees gaining greater visibility and simplified experiences as part of the organization’s ongoing digital business and HR transformation efforts.
- Workday 2020 Release 2 **included** the availability of Workday Accounting Center and machine learning-driven predictive forecasts for Workday Adaptive Planning, helping to bring new levels of visibility and control to the office of the chief financial officer. In addition, Workday **made** Workday Talent Marketplace available, which delivers skills-based talent matching that connects people with relevant work and growth opportunities.
- To further support equity in the workplace and in communities, Workday **shared** its commitments to social justice, and **introduced** two new offerings, VIBE Central™ and VIBE Index™, to help organizations advance belonging and diversity initiatives.
- Workday was **positioned** by Gartner, Inc. in the Leaders quadrant of the **2020 Gartner Magic Quadrant for Cloud Financial Planning & Analysis Solutions**³ for the fourth year in a row.
- Workday hosted a virtual conference, **Conversations for a Changing World**, which featured global

changemakers, visionary CEO speakers, and sessions highlighting how customers can navigate the changing world with Workday.

- Scout RFP, a Workday company, is now [Workday Strategic Sourcing](#), reflecting Workday's commitment to elevate and help transform the office of procurement.
- Workday continues to [support](#) its employees through the COVID-19 pandemic with additional benefits, including modified schedules, caregiver flexibility, and financial aid through an employee relief fund. In addition, the majority of employees will not be required to return to their regular Workday office prior to Aug. 2, 2021.

Earnings Call Details

Workday plans to host a conference call today to review its fiscal 2021 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.

¹Non-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.

²Non-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.

³Gartner "Magic Quadrant for Cloud Financial Planning & Analysis Solutions," by Greg Leiter, Robert Anderson, John Van Decker, 6 October 2020. Previously listed as Adaptive Insights since Workday announced its acquisition of the company in June 2018.

Required Disclaimer

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About Workday

Workday is a leading provider of enterprise cloud applications for **finance** and **human resources**, helping customers adapt and thrive in a changing world. Workday applications for financial management, human resources, planning, spend management, and analytics have been adopted by thousands of organizations around the world and across industries – from medium-sized businesses to more than 45 percent of the Fortune 500. For more information about Workday, visit [workday.com](https://www.workday.com).

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 fiscal 2021 subscription revenue, investments, and ability to capitalize on growth opportunities, including over the long term. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plan," "project," "looking ahead," "look to," "move into," 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) the impact of the ongoing COVID-19 pandemic on our business, as well as our customers, prospects, partners, and service providers; (ii) our ability to implement our plans, objectives, and other expectations with respect to any of our acquired companies; (iii) breaches in our security measures, unauthorized access to our customers' or other users' personal data, or disruptions in our data center or computing infrastructure operations; (iv) service outages, delays in the deployment of our applications, and the failure of our applications to perform properly; (v) our ability to manage our growth effectively; (vi) competitive factors, including pricing pressures, industry consolidation, entry of new competitors and new applications, advancements in technology, and marketing initiatives by our competitors; (vii) the development of the market for enterprise cloud applications and services; (viii) acceptance of our applications and services by customers and individuals, including any new features, enhancements, and modifications, as well as the acceptance of any underlying technology such as machine learning, artificial intelligence, and blockchain; (ix)

adverse changes in general economic or market conditions; (x) the regulatory, economic, and political risks associated with our domestic and international operations; (xi) the regulatory risks related to new and evolving technologies such as machine learning, artificial intelligence, and blockchain; (xii) delays or reductions in information technology spending; and (xiii) changes in sales, which may not be immediately reflected in our results due to our subscription model. Further information on these and additional 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 fiscal quarter ended July 31, 2020, and our future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. Workday assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Any unreleased services, features, or functions referenced in this document, our website, or other press releases or public statements that are not currently available are subject to change at Workday's discretion and may not be delivered as planned or at all. Customers who purchase Workday services should make their purchase decisions based upon services, features, and functions that are currently available.

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Workday, Inc.

Condensed Consolidated Balance Sheets

(in thousands)

(unaudited)

Assets

Current assets:

Cash and cash equivalents

Marketable securities

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

Debt, current

Total current liabilities

Debt, noncurrent

Unearned revenue, noncurrent

Operating lease liabilities, 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



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Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ende 2020
Revenues:	
Subscription services	\$ 968,547
Professional services	137,413
Total revenues	1,105,960
Costs and expenses (1):	
Costs of subscription services	152,396
Costs of professional services	142,785
Product development	419,962
Sales and marketing	302,870
General and administrative	102,024
Total costs and expenses	1,120,037
Operating income (loss)	(14,077)
Other income (expense), net	(8,846)
Loss before provision for (benefit from) income taxes	(22,923)
Provision for (benefit from) income taxes	1,417
Net loss	\$ (24,340)
Net loss per share, basic and diluted	\$ (0.10)
Weighted-average shares used to compute net loss per share, basic and diluted	238,059



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

Costs of subscription services	\$ 16,767
Costs of professional services	27,349
Product development	128,423
Sales and marketing	54,077
General and administrative	33,216



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

(in thousands)

(unaudited)

	Three Months Ende 2020
Cash flows from operating activities:	
Net loss	\$ (24,340)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	73,864
Share-based compensation expenses	259,832
Amortization of deferred costs	28,732
Amortization of debt discount and issuance costs	12,098
Non-cash lease expense	22,141
Other	(8,760)
Changes in operating assets and liabilities, net of business combinations:	
Trade and other receivables, net	(53,923)
Deferred costs	(41,823)
Prepaid expenses and other assets	25,898
Accounts payable	3,762
Accrued expenses and other liabilities	(5,037)
Unearned revenue	1,358
Net cash provided by (used in) operating activities	293,802
Cash flows from investing activities:	
Purchases of marketable securities	(806,713)
Maturities of marketable securities	427,910
Sales of marketable securities	—
Owned real estate projects	(1,072)
Capital expenditures, excluding owned real estate projects	(78,197)
Business combinations, net of cash acquired	—
Purchases of non-marketable equity and other investments	(4,618)
Sales and maturities of non-marketable equity and other investments	24
Other	—
Net cash provided by (used in) investing activities	(462,666)
Cash flows from financing activities:	
Proceeds from borrowings on term loan, net	—
Payments on convertible senior notes	—
Payments on term loan	(9,375)
Proceeds from issuance of common stock from employee equity plans	3,650
Other	(181)
Net cash provided by (used in) financing activities	(5,906)
Effect of exchange rate changes	40
Net increase (decrease) in cash, cash equivalents, and restricted cash	(174,730)
Cash, cash equivalents, and restricted cash at the beginning of period	1,246,246
Cash, cash equivalents, and restricted cash at the end of period	\$ 1,071,516

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2020

(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other C Expense
Costs and expenses:			
Costs of subscription services	\$ 152,396	\$ (16,767)	\$ (7,811)
Costs of professional services	142,785	(27,349)	(824)
Product development	419,962	(128,423)	(4,006)
Sales and marketing	302,870	(54,077)	(8,352)
General and administrative	102,024	(33,216)	(1,355)
Operating income (loss)	(14,077)	259,832	22,348
Operating margin	(1.3)%	23.5%	2.0%
Other income (expense), net	(8,846)	—	—
Income (loss) before provision for (benefit from) income taxes	(22,923)	259,832	22,348
Provision for (benefit from) income taxes	1,417	—	—
Net income (loss)	\$ (24,340)	\$ 259,832	\$ 22,348
Net income (loss) per share (1)	\$ (0.10)	\$ 1.09	\$ 0.09

- (1) GAAP net loss per share is calculated based upon 238,059 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 254,176 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$14.2 million and total employer payroll tax-related items on employee stock transactions of \$8.1 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 reporting periods. For fiscal 2021, we determined the projected non-GAAP tax rate to be 19%. Included in this is a dilution impact of \$0.06 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2019

(in thousands, except percentages and per share data)

(unaudited)

	GAAP	Share-Based Compensation Expenses	Other C Expenses
Costs and expenses:			
Costs of subscription services	\$ 122,305	\$ (13,634)	\$ (7,593)
Costs of professional services	148,625	(22,249)	(569)
Product development	401,742	(118,215)	(4,420)
Sales and marketing	286,794	(47,142)	(7,820)
General and administrative	88,884	(29,762)	(1,453)
Operating income (loss)	(110,250)	231,002	21,855
Operating margin	(11.8)%	24.6%	2.4%
Other income (expense), net	(4,136)	—	—
Income (loss) before provision for (benefit from) income taxes	(114,386)	231,002	21,855
Provision for (benefit from) income taxes	1,343	—	—
Net income (loss)	\$ (115,729)	\$ 231,002	\$ 21,855
Net income (loss) per share (1)	\$ (0.51)	\$ 1.01	\$ 0.10

- (1) GAAP net loss per share is calculated based upon 228,461 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 240,041 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$15.9 million and total employer payroll tax-related items on employee stock transactions of \$5.9 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 reporting periods. For fiscal 2020, the projected non-GAAP tax rate was 17%. Included in the per share amount is a dilution impact of \$0.02 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2020

(in thousands, except percentages and per share data)

(unaudited)

	GAAP	Share-Based Compensation Expenses	Other C Expense
Costs and expenses:			
Costs of subscription services	\$ 442,666	\$ (45,484)	\$ (26,291)
Costs of professional services	442,422	(74,467)	(4,843)
Product development	1,282,127	(378,950)	(20,710)
Sales and marketing	897,924	(150,881)	(26,841)
General and administrative	296,461	(97,958)	(5,111)
Operating income (loss)	(175,288)	747,740	83,803
Operating margin	(5.5)%	23.5%	2.6%
Other income (expense), net	(31,272)	—	—
Income (loss) before provision for (benefit from) income taxes	(206,560)	747,740	83,803
Provision for (benefit from) income taxes	4,164	—	—
Net income (loss)	\$ (210,724)	\$ 747,740	\$ 83,803
Net income (loss) per share (1)	\$ (0.89)	\$ 3.17	\$ 0.36

- (1) GAAP net loss per share is calculated based upon 235,685 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 251,517 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$45.8 million and total employer payroll tax-related items on employee stock transactions of \$38.0 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 reporting periods. For fiscal 2021, we have determined the projected non-GAAP tax rate to be 19%. Included in the per share amount is a dilution impact of \$0.14 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2019

(in thousands, except percentages and per share data)

(unaudited)

	GAAP	Share-Based Compensation Expenses	Other C Expens
Costs and expenses:			
Costs of subscription services	\$ 355,935	\$ (36,050)	\$ (31,99
Costs of professional services	424,548	(57,390)	(5,261)
Product development	1,127,695	(315,210)	(23,431)
Sales and marketing	839,930	(128,686)	(31,103)
General and administrative	258,932	(88,122)	(6,772)
Operating income (loss)	(356,133)	625,458	98,559
Operating margin	(13.4)%	23.6%	3.7%
Other income (expense), net	2,899	—	—
Income (loss) before provision for (benefit from) income taxes	(353,234)	625,458	98,559
Provision for (benefit from) income taxes	(518)	—	—
Net income (loss)	\$ (352,716)	\$ 625,458	\$ 98,559
Net income (loss) per share (1)	\$ (1.56)	\$ 2.77	\$ 0.44

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- (1) GAAP net loss per share is calculated based upon 226,071 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 240,657 diluted weighted-average shares of common stock.
 - (2) Other operating expenses include amortization of acquisition-related intangible assets of \$54.8 million and total employer payroll tax-related items on employee stock transactions of \$43.7 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 reporting periods. For fiscal 2020, the projected non-GAAP tax rate was 17%. Included in the per share amount is a dilution impact of \$0.10 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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 expense for 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 expense for 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. 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 convertible senior notes 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 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, we determined the projected non-GAAP tax rate to be 17%.

For fiscal 2021, we determined the projected non-GAAP tax rate to be 19%, which reflects currently available information, as well as other factors and assumptions. 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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