Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended April 30, 2018
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [2]	Amortization of Debt Discount and Issuance Costs	Income Tax Effects [3]	Non-GAAP
Costs and expenses:						
Costs of subscription services	$ 80,245	$ (7,877)	$ (4,452)	$ —	$ —	$ 67,916
Costs of professional services	97,726	(10,792)	(1,701)	—	—	85,233
Product development	263,584	(68,511)	(8,797)	—	—	186,276
Sales and marketing	192,771	(25,612)	(2,580)	—	—	164,579
General and administrative	55,581	(19,867)	(1,867)	—	—	33,847
Operating income (loss)	(71,264)	132,659	19,397	—	—	80,792
Operating margin	*(11.5)%*	*21.4%*	*3.2%*	*—%*	*—%*	*13.1%*
Other income (expense), net	(3,848)	—	—	18,139	—	14,291
Income (loss) before provision for (benefit from) income taxes	(75,112)	132,659	19,397	18,139	—	95,083
Provision for (benefit from) income taxes	(702)	—	—	—	16,866	16,164
Net income (loss)	$ (74,410)	$ 132,659	$ 19,397	$ 18,139	$ (16,866)	$ 78,919
Net income (loss) per share [1]	$ (0.35)	$ 0.62	$ 0.09	$ 0.09	$ (0.12)	$ 0.33

(1) GAAP net loss per share is calculated based upon 213,055 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 236,027 diluted weighted-average shares of 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 of $5.1 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 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 April 30, 2017
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [(2)]	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 59,798	$ (5,691)	$ (546)	$ —	$ 53,561
Costs of professional services	76,913	(8,021)	(906)	—	67,986
Product development	196,439	(51,029)	(8,962)	—	136,448
Sales and marketing	155,709	(23,159)	(1,674)	—	130,876
General and administrative	51,202	(19,888)	(1,318)	—	29,996
Operating income (loss)	(60,200)	107,788	13,406	—	60,994
Operating margin	*(12.5)%*	*22.5%*	*2.7%*	*—%*	*12.7%*
Other income (expense), net	(1,663)	—	—	6,950	5,287
Income (loss) before provision for (benefit from) income taxes	(61,863)	107,788	13,406	6,950	66,281
Provision for (benefit from) income taxes	2,181	—	—	—	2,181
Net income (loss)	$ (64,044)	$ 107,788	$ 13,406	$ 6,950	$ 64,100
Net income (loss) per share [(1)]	$ (0.31)	$ 0.53	$ 0.05	$ 0.02	$ 0.29

(1) GAAP net loss per share is calculated based upon 203,818 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 222,065 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $8.5 million and amortization of acquisition-related intangible assets of $4.9 million recorded as part of product development expenses.

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

	Three Months Ended April 30,	
	2018	**2017**
Net cash provided by (used in) operating activities	$ 184,233	$ 180,022
Capital expenditures, excluding owned real estate projects [1]	(48,862)	(30,593)
Free cash flows	$ 135,371	$ 149,429

	Trailing Twelve Months Ended April 30,		
	2018	**2017**	**% change**
Net cash provided by (used in) operating activities	$ 469,938	$ 367,831	28%
Capital expenditures, excluding owned real estate projects [1]	(159,805)	(116,928)	
Free cash flows	$ 310,133	$ 250,903	24%

[1] Owned real estate projects totaled $39 million and $30 million for the three months ended April 30, 2018 and 2017, respectively, and $135 million and $118 million for the trailing twelve months ended April 30, 2018 and 2017, respectively.

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Workday's results, we have disclosed the following non-GAAP financial measures: non-GAAP operating income (loss), non-GAAP net income (loss) per share, and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. Non-GAAP operating income (loss) differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, and amortization of acquisition-related intangible assets. Non-GAAP net income (loss) per share differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures (excluding owned real estate projects) as a reduction to cash flows.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business, as they exclude expenses that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Workday's operating results and prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash flows generated by normal recurring activities to make strategic acquisitions and investments, to fund ongoing operations, and to fund other capital expenditures.

Management believes excluding the following items from the GAAP Condensed Consolidated Statements of Operations is useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation expenses.* Although share-based compensation is an important aspect of the compensation of our employees and executives, management believes it is useful to exclude share-based compensation expenses to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Share-based compensation expenses are determined using a number of factors, including our stock price, volatility, and forfeitures rates that are beyond our control and generally unrelated to operational decisions and performance in any particular period. Further, share-based compensation expenses are not reflective of the value ultimately received by the grant recipients.
- *Other operating expenses*. Other operating expenses includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of ongoing operations.
- *Amortization of debt discount and issuance costs*. Under GAAP, we are required to separately account for liability (debt) and equity (conversion option) components of the convertible senior notes that were issued in private placements in June 2013 and September 2017. Accordingly, for GAAP purposes we are required to recognize the effective interest expense on our convertible senior notes and amortize the issuance costs over the term of the notes. The difference between the effective interest expense and the contractual interest expense, and the amortization expense of issuance costs are excluded from management's assessment of our operating performance because management believes that these non-cash expenses are not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of Workday's operational performance.

- *Income tax effects.* We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the interim reporting periods. In projecting this long-term non-GAAP tax rate, we utilize a three-year financial projection that excludes the direct impact of share-based compensation and related employer payroll taxes, amortization of acquisition-related intangible assets and amortization of debt discount and issuance costs. The projected rate also assumes no new acquisition activity in the three-year period and considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. For fiscal 2019, we have determined the projected non-GAAP tax rate to be 17%. We will periodically re-evaluate this tax rate, as necessary, for significant events, based on our ongoing analysis of the 2017 U.S Tax Cuts and Jobs Act, relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

Additionally, we believe that the non-GAAP financial measure free cash flows is meaningful to investors because we review cash flows generated from or used in operations after deducting certain capital expenditures that are considered to be an ongoing operational component of our business. Capital expenditures deducted from cash flows from operations do not include purchases of land and buildings or construction costs of our new development center and of other owned buildings. We exclude these owned real estate projects as they are infrequent in nature. For the current fiscal year, these costs primarily represent the construction of our new development center, which is anticipated to be completed in fiscal 2020.

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

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