

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended April 30, 2015

(in thousands, except per share data)

(unaudited)

	<u>GAAP</u>	<u>Share-Based Compensation Expenses</u>	<u>Other Operating Expenses⁽²⁾</u>	<u>Amortization of Debt Discount and Issuance Costs</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of subscription services	\$ 31,782	\$ (2,048)	\$ (186)	\$ —	\$ 29,548
Costs of professional services	46,132	(3,454)	(354)	—	42,324
Product development	99,335	(20,811)	(2,313)	—	76,211
Sales and marketing	94,895	(8,365)	(631)	—	85,899
General and administrative	32,217	(12,596)	(587)	—	19,034
Operating loss	(53,404)	47,274	4,071	—	(2,059)
Operating margin	-21.3%	18.9%	1.6%	—	-0.8%
Other expense, net	(7,236)	—	—	6,250	(986)
Loss before provision for income taxes	(60,640)	47,274	4,071	6,250	(3,045)
Provision for income taxes	918	—	—	—	918
Net loss	\$ (61,558)	\$ 47,274	\$ 4,071	\$ 6,250	\$ (3,963)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.33)	\$ 0.25	\$ 0.02	\$ 0.04	\$ (0.02)

⁽¹⁾ Calculated based upon 187,390 basic and diluted weighted-average shares of common stock.

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

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	<u>GAAP</u>	<u>Share-Based Compensation Expenses</u>	<u>Other Operating Expenses⁽²⁾</u>	<u>Amortization of Debt Discount and Issuance Costs</u>	<u>Non-GAAP</u>
Costs and expenses:					
Costs of subscription services	\$ 21,459	\$ (1,055)	\$ (46)	\$ —	\$ 20,358
Costs of professional services	35,960	(2,198)	(89)	—	33,673
Product development	65,171	(10,868)	(682)	—	53,621
Sales and marketing	68,167	(6,752)	(273)	—	61,142
General and administrative	21,063	(8,001)	409	—	13,471
Operating loss	(52,083)	28,874	681	—	(22,528)
Operating margin	-32.6%	18.1%	0.4%	—	-14.1%
Other expense, net	(6,999)	—	—	5,920	(1,079)
Loss before provision for income taxes	(59,082)	28,874	681	5,920	(23,607)
Provision for income taxes	307	—	—	—	307
Net loss	\$ (59,389)	\$ 28,874	\$ 681	\$ 5,920	\$ (23,914)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.32)	\$ 0.16	\$ —	\$ 0.03	\$ (0.13)

⁽¹⁾ Calculated based upon 183,084 basic and diluted weighted-average shares of common stock.

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

Workday, Inc.

Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows

(A Non-GAAP Financial Measure)

(in thousands)

(unaudited)

	Three Months Ended		Trailing Twelve	
	April 30,		Months Ended	
	2015	2014	2015	2014
Net cash provided by (used in) operating activities	\$ 94,059	\$ 21,697	\$ 174,365	\$ 50,650
Purchase of property and equipment	(30,180)	(9,873)	(123,953)	(68,703)
Purchase of other intangible assets	—	—	—	(15,000)
Free cash flows	<u>\$ 63,879</u>	<u>\$ 11,824</u>	<u>\$ 50,412</u>	<u>\$ (33,053)</u>

Workday, Inc.
Supplemental financial information including non-GAAP data

	Quarter ended 4/30/14	Quarter ended 1/31/15	Quarter ended 4/30/15
GAAP results:			
Costs of subscription services	\$ 21,459	\$ 29,218	31,782
Sequential change %	8.0%	6.5%	8.8%
Y/Y change %	43.7%	47.1%	48.1%
Costs of professional services	35,960	40,737	46,132
Sequential change %	16.4%	-8.2%	13.2%
Y/Y change %	65.2%	31.8%	28.3%
Total costs of revenue	57,419	69,955	77,914
Sequential change %	13.1%	-2.6%	11.4%
Y/Y change %	56.5%	37.8%	35.7%
Subscription services gross margin	82.6%	83.9%	84.2%
Professional services gross margin	1.0%	8.3%	7.7%
Gross margin	64.1%	69.1%	69.0%
Product development	65,171	88,963	99,335
Sequential change %	17.8%	4.3%	11.7%
Y/Y change %	79.6%	60.8%	52.4%
Sales and marketing	68,167	88,469	94,895
Sequential change %	12.1%	9.7%	7.3%
Y/Y change %	77.7%	45.5%	39.2%
General and administrative	21,063	29,270	32,217
Sequential change %	-8.2%	1.6%	10.1%
Y/Y change %	63.0%	27.5%	53.0%
Operating loss	(52,083)	(50,384)	(53,404)
Operating margin	-32.6%	-22.3%	-21.3%
Sequential change %	1.2%	1.6%	1.0%
Y/Y change %	3.0%	11.5%	11.3%
Other expense, net	(6,999)	(8,271)	(7,236)
Net loss	(59,389)	(59,466)	(61,558)
Net loss per share	\$ (0.32)	\$ (0.32)	\$ (0.33)
Weighted-average shares used to compute net loss per share	183,084	185,696	187,390

Workday, Inc.**Supplemental financial information including non-GAAP data**

	Quarter ended 4/30/14	Quarter ended 1/31/15	Quarter ended 4/30/15
Adjustments:			
Costs of subscription services ⁽¹⁾	\$ (1,101)	\$ (1,534)	\$ (2,234)
Costs of professional services ⁽¹⁾	(2,287)	(3,206)	(3,808)
Total costs of revenue	(3,388)	(4,740)	(6,042)
Subscription services gross margin	0.9%	0.8%	1.1%
Professional services gross margin	6.3%	7.2%	7.6%
Gross margin	2.1%	2.1%	2.4%
Product development ⁽¹⁾⁽²⁾	(11,550)	(18,265)	(23,124)
Sales and marketing ⁽¹⁾	(7,025)	(7,492)	(8,996)
General and administrative ⁽¹⁾	(7,592)	(11,298)	(13,183)
Operating loss	29,555	41,795	51,345
Operating margin	18.5%	18.5%	20.5%
Other expense, net ⁽³⁾	5,920	6,166	6,250
Net loss	35,475	47,961	57,595
Net loss per share	\$ 0.19	\$ 0.26	\$ 0.31
Weighted-average shares used to compute net loss per share	183,084	185,696	187,390

⁽¹⁾ Adjustments relate to share-based compensation and employer payroll tax-related items on employee stock transactions

⁽²⁾ Beginning in the quarter ended 4/30/2014, there is an adjustment to subtract amortization of acquisition-related intangit

⁽³⁾ Adjustments related to the amortization of debt discount and issuance costs related to the 2018 Notes and 2020 Notes.

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 4/30/14	Quarter ended 1/31/15	Quarter ended 4/30/15
Non-GAAP results:			
Costs of subscription services	\$ 20,358	\$ 27,684	\$ 29,548
Sequential change %	7.8%	8.8%	6.7%
Y/Y change %	38.9%	46.5%	45.1%
Costs of professional services	33,673	37,531	42,324
Sequential change %	17.0%	-6.4%	12.8%
Y/Y change %	60.3%	30.4%	25.7%
Total costs of revenue	54,031	65,215	71,872
Sequential change %	13.4%	-0.5%	10.2%
Y/Y change %	51.5%	36.8%	33.0%
Subscription services gross margin	83.5%	84.8%	85.3%
Sequential change %	0.6%	0.3%	0.5%
Sequential change (bps)	57 bps	26 bps	52 bps
Y/Y change %	4.9%	1.9%	1.8%
Y/Y change (bps)	493 bps	184 bps	180 bps
Professional services gross margin	7.3%	15.5%	15.3%
Sequential change %	-0.3%	-5.4%	-0.2%
Sequential change (bps)	(31) bps	(541) bps	(19) bps
Y/Y change %	-2.3%	7.9%	8.0%
Y/Y change (bps)	(227) bps	786 bps	798 bps
Gross margin	66.2%	71.2%	71.4%
Sequential change %	-0.2%	1.7%	0.2%
Sequential change (bps)	(22) bps	165 bps	18 bps
Y/Y change %	5.1%	4.8%	5.2%
Y/Y change(bps)	509 bps	478 bps	519 bps
Product development	53,621	70,698	76,211
Sequential change %	17.9%	8.0%	7.8%
Y/Y change %	57.0%	55.5%	42.1%
Sales and marketing	61,142	80,977	85,899
Sequential change %	9.8%	13.2%	6.1%
Y/Y change %	64.2%	45.4%	40.5%
General and administrative	13,471	17,972	19,034
Sequential change %	-3.7%	15.9%	5.9%
Y/Y change %	47.4%	28.5%	41.3%
Operating loss	(22,528)	(8,589)	(2,059)
Operating margin	-14.1%	-3.8%	-0.8%
Sequential change %	0.7%	-2.4%	3.0%
Sequential change (bps)	66 bps	(243) bps	298 bps
Y/Y change %	12.7%	11.0%	13.3%
Y/Y change (bps)	1,266 bps	1,097 bps	1,328 bps
Other expense, net	(1,079)	(2,105)	(986)
Net loss	(23,914)	(11,505)	(3,963)
Net loss per share	\$ (0.13)	\$ (0.06)	\$ (0.02)
Weighted-average shares used to compute net loss per share	183,084	185,696	187,390

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 loss, non-GAAP net 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. The non-GAAP financial measures non-GAAP operating loss and non-GAAP net loss per share differ from GAAP in that they exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets and non-cash interest expense related to our convertible senior notes, as applicable. Free cash flows differ from GAAP cash flows from operating activities in that it treats purchases of property and equipment, property and equipment acquired under capital leases and purchased other (non-acquisition related) intangible assets 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 future 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 available 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 Statement 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 in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted share awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and the Employee Stock Purchase Plan, which is an element of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- *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 the 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. 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 the company's operational performance.

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 capital expenditures, whether purchased or leased, and purchased other intangible assets, due to the fact that these expenditures are considered to be an ongoing operational component of our business. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

The use of non-GAAP operating loss and net loss per share 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.