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

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [3]	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 75,834	$ (7,110)	$ (3,821)	$ —	$ 64,903
Costs of professional services	95,118	(10,314)	(560)	—	84,244
Product development	253,454	(62,751)	(3,784)	—	186,919
Sales and marketing	179,585	(26,144)	(1,169)	—	152,272
General and administrative	59,824	(20,316)	(859)	—	38,649
Operating income (loss)	(81,335)	126,635	10,193	—	55,493
Operating margin	*(14.0)%*	*21.7%*	*1.8%*	*—%*	*9.5%*
Other income (expense), net	(7,096)	—	—	17,924	10,828
Income (loss) before provision for (benefit from) income taxes	(88,431)	126,635	10,193	17,924	66,321
Provision for (benefit from) income taxes [1]	669	—	—	—	669
Net income (loss)	$ (89,100)	$ 126,635	$ 10,193	$ 17,924	$ 65,652
Net income (loss) per share [2]	$ (0.42)	$ 0.60	$ 0.05	$ 0.05	$ 0.28

(1) Workday’s GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

(2) GAAP net loss per share is calculated based upon 210,909 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,164 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $5.3 million and amortization of acquisition-related intangible assets of $4.9 million.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2017
(in thousands, except per share data)
(unaudited)

	GAAP *As Adjusted	Share-Based Compensation Expenses	Other Operating Expenses [3]	Amortization of Debt Discount and Issuance Costs	Non-GAAP *As Adjusted
Costs and expenses:					
Costs of subscription services	$ 58,165	$ (5,936)	$ (160)	$ —	$ 52,069
Costs of professional services	72,016	(8,135)	(312)	—	63,569
Product development	191,556	(49,279)	(6,381)	—	135,896
Sales and marketing	153,273	(23,786)	(858)	—	128,629
General and administrative	53,513	(18,581)	(853)	—	34,079
Operating income (loss)	(88,939)	105,717	8,564	—	25,342
Operating margin	*(20.2)%*	*24.1%*	*1.9%*	*—%*	*5.8%*
Other income (expense), net	(2,291)	—	—	6,876	4,585
Income (loss) before provision for (benefit from) income taxes	(91,230)	105,717	8,564	6,876	29,927
Provision for (benefit from) income taxes [1]	(2,961)	—	—	—	(2,961)
Net income (loss)	$ (88,269)	$ 105,717	$ 8,564	$ 6,876	$ 32,888
Net income (loss) per share [2]	$ (0.44)	$ 0.52	$ 0.04	$ 0.04	$ 0.16

(1) Workday's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

(2) GAAP net loss per share is calculated based upon 201,530 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 210,846 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $3.5 million and amortization of acquisition-related intangible assets of $5.1 million.

*Prior-period information has been restated for the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which we adopted on February 1, 2017.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2018
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [3]	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 273,461	$ (26,280)	$ (7,043)	$ —	$ 240,138
Costs of professional services	355,952	(37,592)	(2,045)	—	316,315
Product development	910,584	(229,819)	(23,128)	—	657,637
Sales and marketing	683,367	(100,762)	(4,567)	—	578,038
General and administrative	222,909	(83,972)	(3,614)	—	135,323
Operating income (loss)	(303,223)	478,425	40,397	—	215,599
Operating margin	*(14.1)%*	*22.3%*	*1.9%*	*—%*	*10.1%*
Other income (expense), net	(11,563)	—	—	43,916	32,353
Income (loss) before provision for (benefit from) income taxes	(314,786)	478,425	40,397	43,916	247,952
Provision for (benefit from) income taxes [1]	6,436	—	—	—	6,436
Net income (loss)	$ (321,222)	$ 478,425	$ 40,397	$ 43,916	$ 241,516
Net income (loss) per share [2]	$ (1.55)	$ 2.30	$ 0.19	$ 0.09	$ 1.03
Improvement in operating margin compared to fiscal 2017					*6.8%*

(1) Workday's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

(2) GAAP net loss per share is calculated based upon 207,774 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 234,089 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $21.0 million and amortization of acquisition-related intangible assets of $19.4 million.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2017
(in thousands, except per share data)
(unaudited)

	GAAP *As Adjusted	Share-Based Compensation Expenses	Other Operating Expenses [3]	Amortization of Debt Discount and Issuance Costs	Non-GAAP *As Adjusted
Costs and expenses:					
Costs of subscription services	$ 213,389	$ (20,773)	$ (730)	$ —	$ 191,886
Costs of professional services	270,156	(26,833)	(1,199)	—	242,124
Product development	680,531	(166,529)	(18,533)	—	495,469
Sales and marketing	565,328	(86,229)	(3,316)	—	475,783
General and administrative	198,122	(78,265)	(3,302)	—	116,555
Operating income (loss)	(353,086)	378,629	27,080	—	52,623
Operating margin	*(22.4)%*	*24.0%*	*1.7%*	*—%*	*3.3%*
Other income (expense), net	(32,427)	—	—	26,947	(5,480)
Income (loss) before provision for (benefit from) income taxes	(385,513)	378,629	27,080	26,947	47,143
Provision for (benefit from) income taxes [1]	(814)	—	—	—	(814)
Net income (loss)	$ (384,699)	$ 378,629	$ 27,080	$ 26,947	$ 47,957
Net income (loss) per share [2]	$ (1.94)	$ 1.91	$ 0.14	$ 0.12	$ 0.23

(1) Workday's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

(2) GAAP net loss per share is calculated based upon 198,214 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 208,453 diluted weighted-average shares of common stock.

(3) 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 $12.7 million.

*Prior-period information has been restated for the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which we adopted on February 1, 2017.

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

	Three Months Ended January 31,	
	2018	**2017 *As Adjusted**
Net cash provided by (used in) operating activities	$ 126,548	$ 109,731
Capital expenditures, excluding owned real estate projects	(36,059)	(32,278)
Free cash flows	$ 90,489	$ 77,453

	Year Ended January 31,		
	2018	**2017 *As Adjusted**	**% change**
Net cash provided by (used in) operating activities	$ 465,727	$ 350,626	
Capital expenditures, excluding owned real estate projects	(141,536)	(120,813)	
Free cash flows	$ 324,191	$ 229,813	41%

*Prior-period information has been restated for the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which we adopted on February 1, 2017.

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. The non-GAAP financial measures of non-GAAP operating income (loss) and non-GAAP net income (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. 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 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 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.

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 fiscal 2018, these costs primarily represented 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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