Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2017
(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	$ 71,898	$ (6,899)	$ (2,468)	$ —	$ 62,531
Costs of professional services	91,657	(9,956)	(200)	—	81,501
Gross margin	*70.6%*	*3.0%*	*0.5%*	*—%*	*74.1%*
Product development	239,588	(59,116)	(3,780)	—	176,692
Sales and marketing	176,121	(25,517)	(598)	—	150,006
General and administrative	56,184	(20,991)	(683)	—	34,510
Operating income (loss)	(80,059)	122,479	7,729	—	50,149
Operating margin	*(14.4)%*	*22.1%*	*1.3%*	*—%*	*9.0%*
Other income (expense), net	(3,742)	—	—	12,257	8,515
Income (loss) before provision for (benefit from) income taxes	(83,801)	122,479	7,729	12,257	58,664
Provision for (benefit from) income taxes [1]	1,745	—	—	—	1,745
Net income (loss)	$ (85,546)	$ 122,479	$ 7,729	$ 12,257	$ 56,919
Net income (loss) per share [2]	$ (0.41)	$ 0.59	$ 0.04	$ 0.02	$ 0.24

(1) The Company'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 calculated based upon 209,188 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 235,341 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $2.9 million, and amortization of acquisition-related intangible assets of $4.8 million.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2016
(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	$ 54,645	$ (5,472)	$ (118)	$ —	$ 49,055
Costs of professional services	72,240	(7,436)	(171)	—	64,633
Gross margin	*69.3%*	*3.1%*	*0.1%*	*—%*	*72.5%*
Product development	185,311	(45,968)	(5,792)	—	133,551
Sales and marketing	149,537	(22,597)	(661)	—	126,279
General and administrative	57,721	(24,982)	(713)	—	32,026
Operating income (loss)	(105,932)	106,455	7,455	—	7,978
Operating margin	*(25.6)%*	*25.7%*	*1.8%*	*—%*	*1.9%*
Other income (expense), net	(3,105)	—	—	6,782	3,677
Income (loss) before provision for (benefit from) income taxes	(109,037)	106,455	7,455	6,782	11,655
Provision for (benefit from) income taxes [1]	1,077	—	—	—	1,077
Net income (loss)	$ (110,114)	$ 106,455	$ 7,455	$ 6,782	$ 10,578
Net income (loss) per share [2]	$ (0.55)	$ 0.53	$ 0.04	$ 0.03	$ 0.05

(1) The Company'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 calculated based upon 199,479 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 209,924 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $2.6 million, and amortization of acquisition-related intangible assets of $4.9 million recorded as part of product development expenses.

*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
Nine Months Ended October 31, 2017
(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	$ 197,627	$ (19,170)	$ (3,222)	$ —	$ 175,235
Costs of professional services	260,834	(27,278)	(1,485)	—	232,071
Gross margin	*70.6%*	*3.0%*	*0.3%*	*—%*	*73.9%*
Product development	657,130	(167,068)	(19,344)	—	470,718
Sales and marketing	503,782	(74,618)	(3,398)	—	425,766
General and administrative	163,085	(63,656)	(2,755)	—	96,674
Operating income (loss)	(221,888)	351,790	30,204	—	160,106
Operating margin	*(14.2)%*	*22.5%*	*2.0%*	*—%*	*10.3%*
Other income (expense), net	(4,467)	—	—	25,992	21,525
Income (loss) before provision for (benefit from) income taxes	(226,355)	351,790	30,204	25,992	181,631
Provision for (benefit from) income taxes [1]	5,767	—	—	—	5,767
Net income (loss)	$ (232,122)	$ 351,790	$ 30,204	$ 25,992	$ 175,864
Net income (loss) per share [2]	$ (1.12)	$ 1.70	$ 0.15	$ 0.03	$ 0.76

(1) The Company’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 calculated based upon 206,715 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 232,918 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $15.7 million, and amortization of acquisition-related intangible assets of $14.5 million.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Nine Months Ended October 31, 2016
(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	$ 155,224	$ (14,837)	$ (570)	$ —	$ 139,817
Costs of professional services	198,140	(18,698)	(887)	—	178,555
Gross margin	*68.9%*	*2.9%*	*0.1%*	*—%*	*71.9%*
Product development	488,975	(117,250)	(12,152)	—	359,573
Sales and marketing	412,055	(62,443)	(2,458)	—	347,154
General and administrative	144,609	(59,684)	(2,449)	—	82,476
Operating income (loss)	(264,147)	272,912	18,516	—	27,281
Operating margin	*(23.3)%*	*24.0%*	*1.7%*	*—%*	*2.4%*
Other income (expense), net	(30,136)	—	—	20,071	(10,065)
Income (loss) before provision for (benefit from) income taxes	(294,283)	272,912	18,516	20,071	17,216
Provision for (benefit from) income taxes (1)	2,147	—	—	—	2,147
Net income (loss)	$ (296,430)	$ 272,912	$ 18,516	$ 20,071	$ 15,069
Net income (loss) per share (2)	$ (1.50)	$ 1.38	$ 0.09	$ 0.10	$ 0.07

(1) The Company’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 calculated based upon 197,093 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 207,685 diluted weighted-average shares of common stock.

(3) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $10.9 million, and amortization of acquisition-related intangible assets of $7.6 million recorded as part of product development expenses.

*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 October 31,		Nine Months Ended October 31,	
	2017	2016 *As Adjusted	2017	2016 *As Adjusted
Net cash provided by (used in) operating activities	$ 144,031	$ 71,556	$ 339,179	$ 240,895
Capital expenditures, excluding owned real estate projects	(36,356)	(27,518)	(105,477)	(88,535)
Free cash flows	$ 107,675	$ 44,038	$ 233,702	$ 152,360

	Trailing Twelve Months Ended October 31,		
	2017	2016 *As Adjusted	% change
Net cash provided by (used in) operating activities	$ 448,910	$ 339,386	32%
Capital expenditures, excluding owned real estate projects	(137,755)	(130,520)	
Free cash flows	$ 311,155	$ 208,866	49%

*Prior-period information has been restated for the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* and ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash (Topic 230)*, both of 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 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 flows generated by normal recurring activities to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

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 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 stock unit 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 shares offered under our Employee Stock Purchase Plan, which are elements 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 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 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 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. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

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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