

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 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	\$ 103,310	\$ (10,205)	\$ (11,432)	\$ —	\$ —	\$ 81,673
Costs of professional services	119,691	(15,702)	(495)	—	—	103,494
Product development	318,003	(86,304)	(3,082)	—	—	228,617
Sales and marketing	246,156	(38,720)	(7,717)	—	—	199,719
General and administrative	138,784	(57,993)	(758)	—	—	80,033
Operating income (loss)	(182,755)	208,924	23,484	—	—	49,653
Operating margin	(24.6)%	28.1%	3.2%	—%	—%	6.7%
Other income (expense), net	26,617	—	—	12,341	—	38,958
Income (loss) before provision for (benefit from) income taxes	(156,138)	208,924	23,484	12,341	—	88,611
Provision for (benefit from) income taxes	(2,807)	—	—	—	17,870	15,063
Net income (loss)	\$ (153,331)	\$ 208,924	\$ 23,484	\$ 12,341	\$ (17,870)	\$ 73,548
Net income (loss) per share ⁽¹⁾	\$ (0.70)	\$ 0.96	\$ 0.11	\$ 0.06	\$ (0.12)	\$ 0.31

(1) GAAP net loss per share is calculated based upon 217,694 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 238,590 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$4.2 million and amortization of acquisition-related intangible assets of \$19.3 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%.

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	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	\$ 71,898	\$ (6,899)	\$ (2,468)	\$ —	\$ 62,531
Costs of professional services	91,657	(9,956)	(200)	—	81,501
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	1,745	—	—	—	1,745
Net income (loss)	\$ (85,546)	\$ 122,479	\$ 7,729	\$ 12,257	\$ 56,919
Net income (loss) per share ⁽¹⁾	\$ (0.41)	\$ 0.59	\$ 0.04	\$ 0.02	\$ 0.24

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

⁽²⁾ 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.

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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>Income Tax Effects⁽³⁾</u>	<u>Non-GAAP</u>
Costs and expenses:						
Costs of subscription services	\$ 271,078	\$ (26,603)	\$ (19,671)	\$ —	\$ —	\$ 224,804
Costs of professional services	330,124	(39,012)	(2,715)	—	—	288,397
Product development	874,427	(230,169)	(15,839)	—	—	628,419
Sales and marketing	641,391	(93,699)	(11,336)	—	—	536,356
General and administrative	259,533	(99,163)	(3,356)	—	—	157,014
Operating income (loss)	(343,001)	488,646	52,917	—	—	198,562
Operating margin	(16.9)%	24.0%	2.7%	—%	—%	9.8%
Other income (expense), net	24,382	—	—	47,970	—	72,352
Income (loss) before provision for (benefit from) income taxes	(318,619)	488,646	52,917	47,970	—	270,914
Provision for (benefit from) income taxes	(4,722)	—	—	—	50,740	46,018
Net income (loss)	\$ (313,897)	\$ 488,646	\$ 52,917	\$ 47,970	\$ (50,740)	\$ 224,896
Net income (loss) per share ⁽¹⁾	\$ (1.46)	\$ 2.27	\$ 0.25	\$ 0.22	\$ (0.33)	\$ 0.95

(1) GAAP net loss per share is calculated based upon 215,588 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,293 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$23.2 million and amortization of acquisition-related intangible assets of \$29.7 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 interim reporting periods. For fiscal 2019, we have determined the projected non-GAAP tax rate to be 17%.

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 (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	\$ 197,627	\$ (19,170)	\$ (3,222)	\$ —	\$ 175,235
Costs of professional services	260,834	(27,278)	(1,485)	—	232,071
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	5,767	—	—	—	5,767
Net income (loss)	\$(232,122)	\$ 351,790	\$ 30,204	\$ 25,992	\$ 175,864
Net income (loss) per share ⁽¹⁾	\$ (1.12)	\$ 1.70	\$ 0.15	\$ 0.03	\$ 0.76

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

⁽²⁾ 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 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,	
	2018	2017	2018	2017
Net cash provided by (used in) operating activities	\$ 114,296	\$ 144,031	\$ 356,145	\$ 339,179
Capital expenditures, excluding owned real estate projects	(55,427)	(36,356)	(157,635)	(105,477)
Free cash flows	\$ 58,869	\$ 107,675	\$ 198,510	\$ 233,702

	Trailing Twelve Months Ended October 31,	
	2018	2017
Net cash provided by (used in) operating activities	\$ 482,693	\$ 448,910
Capital expenditures, excluding owned real estate projects	(193,694)	(137,755)
Free cash flows	\$ 288,999	\$ 311,155

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 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 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 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% after including our acquisition of Adaptive Insights, Inc., which did not have a significant impact to this rate. 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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