

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2020
(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	\$ 132,578	\$ (13,869)	\$ (8,334)	\$ —	\$ —	\$ 110,375
Costs of professional services	152,197	(23,011)	(1,179)	—	—	128,007
Product development	422,211	(118,978)	(7,253)	—	—	295,980
Sales and marketing	306,618	(48,072)	(9,671)	—	—	248,875
General and administrative	108,792	(30,492)	(1,820)	—	—	76,480
Operating income (loss)	(146,097)	234,422	28,257	—	—	116,582
Operating margin	<i>(15.0)%</i>	<i>24.0 %</i>	<i>2.9 %</i>	<i>— %</i>	<i>— %</i>	<i>11.9 %</i>
Other income (expense), net	16,884	—	—	14,635	—	31,519
Income (loss) before provision for (benefit from) income taxes	(129,213)	234,422	28,257	14,635	—	148,101
Provision for (benefit from) income taxes	(1,255)	—	—	—	26,432	25,177
Net income (loss)	\$ (127,958)	\$ 234,422	\$ 28,257	\$ 14,635	\$ (26,432)	\$ 122,924
Net income (loss) per share ⁽¹⁾	\$ (0.56)	\$ 0.99	\$ 0.12	\$ 0.06	\$ (0.11)	\$ 0.50

- (1) GAAP net loss per share is calculated based upon 230,491 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 247,819 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$17.0 million and total employer payroll tax-related items on employee stock transactions of \$11.2 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 reporting periods. For fiscal 2020, we have determined the projected non-GAAP tax rate to be 17%.

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Costs and expenses:						
Costs of subscription services	\$ 108,799	\$ (10,151)	\$ (11,725)	\$ —	\$ —	\$ 86,923
Costs of professional services	124,949	(16,523)	(938)	—	—	107,488
Product development	337,405	(90,707)	(5,391)	—	—	241,307
Sales and marketing	249,954	(39,111)	(8,389)	—	—	202,454
General and administrative	87,804	(28,280)	(1,764)	—	—	57,760
Operating income (loss)	(120,283)	184,772	28,207	—	—	92,696
Operating margin	<i>(15.3)%</i>	<i>23.5 %</i>	<i>3.6 %</i>	<i>— %</i>	<i>— %</i>	<i>11.8 %</i>
Other income (expense), net	15,150	—	—	12,003	—	27,153
Income (loss) before provision for (benefit from) income taxes	(105,133)	184,772	28,207	12,003	—	119,849
Provision for (benefit from) income taxes	(772)	—	—	—	21,147	20,375
Net income (loss)	\$ (104,361)	\$ 184,772	\$ 28,207	\$ 12,003	\$ (21,147)	\$ 99,474
Net income (loss) per share ⁽¹⁾	\$ (0.47)	\$ 0.80	\$ 0.13	\$ 0.05	\$ (0.10)	\$ 0.41

- (1) GAAP net loss per share is calculated based upon 220,351 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 241,212 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$19.3 million and total employer payroll tax-related items on employee stock transactions of \$8.9 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 reporting periods. For fiscal 2019, the projected non-GAAP tax rate was 17%.

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	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	\$ 488,513	\$ (49,919)	\$ (40,326)	\$ —	\$ —	\$ 398,268
Costs of professional services	576,745	(80,401)	(6,440)	—	—	489,904
Product development	1,549,906	(434,188)	(30,684)	—	—	1,085,034
Sales and marketing	1,146,548	(176,758)	(40,774)	—	—	929,016
General and administrative	367,724	(118,614)	(8,592)	—	—	240,518
Operating income (loss)	(502,230)	859,880	126,816	—	—	484,466
Operating margin	<i>(13.8)%</i>	<i>23.7 %</i>	<i>3.5 %</i>	<i>— %</i>	<i>— %</i>	<i>13.4 %</i>
Other income (expense), net	19,783	—	—	54,034	—	73,817
Income (loss) before provision for (benefit from) income taxes	(482,447)	859,880	126,816	54,034	—	558,283
Provision for (benefit from) income taxes	(1,773)	—	—	—	96,681	94,908
Net income (loss)	\$ (480,674)	\$ 859,880	\$ 126,816	\$ 54,034	\$ (96,681)	\$ 463,375
Net income (loss) per share ⁽¹⁾	\$ (2.12)	\$ 3.63	\$ 0.56	\$ 0.24	\$ (0.43)	\$ 1.88

- (1) GAAP net loss per share is calculated based upon 227,185 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 247,013 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$71.8 million and total employer payroll tax-related items on employee stock transactions of \$55.0 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 reporting periods. For fiscal 2020, we have determined the projected non-GAAP tax rate to be 17%.

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Costs and expenses:						
Costs of subscription services	\$ 379,877	\$ (36,754)	\$ (31,395)	\$ —	\$ —	\$ 311,728
Costs of professional services	455,073	(55,535)	(3,653)	—	—	395,885
Product development	1,211,832	(320,876)	(21,230)	—	—	869,726
Sales and marketing	891,345	(132,810)	(19,725)	—	—	738,810
General and administrative	347,337	(127,443)	(5,120)	—	—	214,774
Operating income (loss)	(463,284)	673,418	81,123	—	—	291,257
Operating margin	<i>(16.4)%</i>	<i>23.8 %</i>	<i>2.9 %</i>	<i>— %</i>	<i>— %</i>	<i>10.3 %</i>
Other income (expense), net	39,532	—	—	59,974	—	99,506
Income (loss) before provision for (benefit from) income taxes	(423,752)	673,418	81,123	59,974	—	390,763
Provision for (benefit from) income taxes	(5,494)	—	—	—	71,887	66,393
Net income (loss)	\$ (418,258)	\$ 673,418	\$ 81,123	\$ 59,974	\$ (71,887)	\$ 324,370
Net income (loss) per share ⁽¹⁾	\$ (1.93)	\$ 2.97	\$ 0.37	\$ 0.28	\$ (0.33)	\$ 1.36

- (1) GAAP net loss per share is calculated based upon 216,789 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,890 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$49.1 million and total employer payroll tax-related items on employee stock transactions of \$32.0 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 reporting periods. For fiscal 2019, the projected non-GAAP tax rate was 17%.

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) and non-GAAP net income (loss) per share. 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 expense for 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 expense for acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects.

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. 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.

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 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 2020, we have determined the projected non-GAAP tax rate to be 17%. For fiscal 2021, we determine the projected non-GAAP tax rate to be 19%, which reflects currently available information, as well as other factors and assumptions. 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.

The use of non-GAAP operating income (loss) and non-GAAP net income (loss) per share measures have 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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