Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2022
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses (2)	Income Tax and Dilution Effects (3)	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 220,208	$ (23,235)	$ (14,356)	$ —	$ 182,617
Costs of professional services	169,589	(30,112)	(1,970)	—	137,507
Product development	537,738	(147,790)	(7,362)	—	382,586
Sales and marketing	410,947	(57,571)	(10,945)	—	342,431
General and administrative	138,621	(43,225)	(1,534)	—	93,862
Operating income (loss)	(100,962)	301,933	36,167	—	237,138
Operating margin	*(7.3)%*	*21.9 %*	*2.6 %*	*— %*	*17.2 %*
Other income (expense), net	17,141	—	—	—	17,141
Income (loss) before provision for (benefit from) income taxes	(83,821)	301,933	36,167	—	254,279
Provision for (benefit from) income taxes	(10,568)	—	—	58,881	48,313
Net income (loss)	$ (73,253)	$ 301,933	$ 36,167	$ (58,881)	$ 205,966
Net income (loss) per share, basic (1)	$ (0.29)	$ 1.21	$ 0.14	$ (0.24)	$ 0.82
Net income (loss) per share, diluted (1)	$ (0.29)	$ 1.21	$ 0.14	$ (0.28)	$ 0.78

(1) GAAP net loss per share is calculated based upon 250,043 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 250,043 basic and 264,581 diluted weighted-average shares of common stock. The numerator used to compute non-GAAP diluted net income per share was increased by $1.3 million for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.

(2) Other operating expenses include amortization of acquisition-related intangible assets of $20.7 million and total employer payroll tax-related items on employee stock transactions of $15.5 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 2022, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.04 from the conversion of GAAP diluted net loss per share to non-GAAP diluted net income per share.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2021
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [2]	Amortization of Convertible Senior Notes Debt Discount and Issuance Costs	Income Tax and Dilution Effects [3]	Non-GAAP
Costs and expenses:						
Costs of subscription services	$ 169,246	$ (17,769)	$ (8,501)	$ —	$ —	$ 142,976
Costs of professional services	143,798	(27,402)	(1,643)	—	—	114,753
Product development	439,095	(126,426)	(6,857)	—	—	305,812
Sales and marketing	335,249	(51,938)	(8,956)	—	—	274,355
General and administrative	117,607	(33,579)	(1,226)	—	—	82,802
Operating income (loss)	(73,311)	257,114	27,183	—	—	210,986
Operating margin	*(6.5)%*	*22.7 %*	*2.4 %*	*— %*	*— %*	*18.6 %*
Other income (expense), net	4,737	—	—	12,117	—	16,854
Income (loss) before provision for (benefit from) income taxes	(68,574)	257,114	27,183	12,117	—	227,840
Provision for (benefit from) income taxes	3,133	—	—	—	40,157	43,290
Net income (loss)	$ (71,707)	$ 257,114	$ 27,183	$ 12,117	$ (40,157)	$ 184,550
Net income (loss) per share, basic [1]	$ (0.30)	$ 1.07	$ 0.11	$ 0.05	$ (0.16)	$ 0.77
Net income (loss) per share, diluted [1]	$ (0.30)	$ 1.07	$ 0.11	$ 0.05	$ (0.20)	$ 0.73

(1) GAAP net loss per share is calculated based upon 240,992 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 240,992 basic and 252,099 diluted weighted-average shares of common stock.

(2) Other operating expenses include amortization of acquisition-related intangible assets of $14.0 million and total employer payroll tax-related items on employee stock transactions of $13.2 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 2021, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.03 from the conversion of GAAP diluted net loss per share to non-GAAP diluted net income per share.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2022
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses (2)	Income Tax and Dilution Effects (3)	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 795,854	$ (85,713)	$ (54,551)	$ —	$ 655,590
Costs of professional services	632,241	(113,443)	(11,181)	—	507,617
Product development	1,879,220	(543,135)	(32,935)	—	1,303,150
Sales and marketing	1,461,921	(215,692)	(47,457)	—	1,198,772
General and administrative	486,012	(154,422)	(7,625)	—	323,965
Operating income (loss)	(116,450)	1,112,405	153,749	—	1,149,704
Operating margin	*(2.3)%*	*21.6 %*	*3.1 %*	*— %*	*22.4 %*
Other income (expense), net	132,632	—	—	—	132,632
Income (loss) before provision for (benefit from) income taxes	16,182	1,112,405	153,749	—	1,282,336
Provision for (benefit from) income taxes	(13,191)	—	—	256,835	243,644
Net income (loss)	$ 29,373	$1,112,405	$ 153,749	$ (256,835)	$1,038,692
Net income (loss) per share, basic (1)	$ 0.12	$ 4.50	$ 0.62	$ (1.04)	$ 4.20
Net income (loss) per shares, diluted (1)	$ 0.12	$ 4.38	$ 0.61	$ (1.12)	$ 3.99

(1) GAAP net income per share is calculated based upon 247,249 basic and 254,032 diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 247,249 basic and 261,849 diluted weighted-average shares of common stock. The numerator used to compute non-GAAP diluted net income per share was increased by $5.2 million for after-tax interest expense on our convertible senior notes in accordance with the if-converted method.

(2) Other operating expenses include amortization of acquisition-related intangible assets of $78.1 million and total employer payroll tax-related items on employee stock transactions of $75.6 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 2022, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.11 from the conversion of GAAP diluted net income per share to non-GAAP diluted net income per share.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2021
(in thousands, except percentages and per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses (2)	Amortization of Convertible Senior Notes Debt Discount and Issuance Costs	Income Tax and Dilution Effects (3)	Non-GAAP
Costs and expenses:						
Costs of subscription services	$ 611,912	$ (63,253)	$ (34,799)	$ —	$ —	$ 513,860
Costs of professional services	586,220	(101,869)	(6,486)	—	—	477,865
Product development	1,721,222	(505,376)	(27,567)	—	—	1,188,279
Sales and marketing	1,233,173	(202,819)	(35,797)	—	—	994,557
General and administrative	414,068	(131,537)	(6,337)	—	—	276,194
Operating income (loss)	(248,599)	1,004,854	110,986	—	—	867,241
Operating margin	*(5.8)%*	*23.3 %*	*2.6 %*	*— %*	*— %*	*20.1 %*
Other income (expense), net	(26,535)	—	—	53,326	—	26,791
Income (loss) before provision for (benefit from) income taxes	(275,134)	1,004,854	110,986	53,326	—	894,032
Provision for (benefit from) income taxes	7,297	—	—	—	162,569	169,866
Net income (loss)	$ (282,431)	$ 1,004,854	$ 110,986	$ 53,326	$ (162,569)	$ 724,166
Net income (loss) per share, basic (1)	$ (1.19)	$ 4.24	$ 0.47	$ 0.22	$ (0.68)	$ 3.06
Net income (loss) per share, diluted (1)	$ (1.19)	$ 4.24	$ 0.47	$ 0.22	$ (0.81)	$ 2.93

(1) GAAP net loss per share is calculated based upon 237,019 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,019 basic and 247,230 diluted weighted-average shares of common stock.

(2) Other operating expenses include amortization of acquisition-related intangible assets of $59.8 million and total employer payroll tax-related items on employee stock transactions of $51.2 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 2021, the non-GAAP tax rate was 19%. Included in the per share amount is a dilution impact of $0.12 from the conversion of GAAP diluted net loss per share to non-GAAP diluted net income per share.

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. 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. Although we exclude the amortization of acquisition-related intangible assets from these non-GAAP measures, management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation.
- *Amortization of convertible senior notes debt discount and issuance costs*. We adopted Accounting Standard Update No. 2020-06*, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*, on February 1, 2021, using a modified retrospective method, under which financial results reported in prior periods were not adjusted. Prior to the adoption, we were 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 were 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 were excluded from management's assessment of our operating performance because management believed that these non-cash expenses were not indicative of ongoing operating performance. Management believed that the exclusion of the non-cash interest expense provided investors an enhanced view of Workday's operational performance. Upon adoption, we recombined the liability and equity components of our outstanding convertible senior notes, assuming the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. Under this new guidance, we will no longer incur interest expense related to the amortization of the debt discount associated with the conversion option and therefore no longer consider this to be a non-GAAP reconciling item.

- *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 2023 and 2022, we determined 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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