

Workday, Inc.
Fourth-Quarter Fiscal 2025
Prepared Remarks
February 25, 2025

Introduction

Thank you, Operator.

Welcome to Workday's fourth quarter fiscal 2025 earnings conference call. On the call we have Carl Eschenbach, our CEO, Zane Rowe, our CFO, and David Somers, our Chief Product Officer. Following prepared remarks, we will take questions. Our press release was issued after close of market and is posted on our website, where this call is being simultaneously webcast.

Before we get started, we want to emphasize that some of our statements on this call, particularly our guidance, are based on the information we have as of today, and include forward-looking statements regarding our financial results, applications, customer demand, operations and other matters. These statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially. Please refer to the press release and the risk factors in documents we file with the Securities and Exchange Commission, including our fiscal 2024 Annual Report on Form 10-K and our most recent Quarterly Report on Form 10-Q for additional information on risks, uncertainties and assumptions that may cause actual results to differ materially from those set forth in such statements.

In addition, during today's call, we will discuss non-GAAP financial measures, which we believe are useful as supplemental measures of Workday's performance. These non-GAAP measures should be considered in addition to, and not as a substitute for or in isolation from GAAP results. You can find additional disclosures regarding these non-GAAP measures, including reconciliations with comparable GAAP results, in our earnings press release, in our investor presentation, and on the Investor Relations page of our website.

The webcast replay of this call will be available for the next 90 days on our company website under the Investor Relations link. Additionally, the transcript of this call and our quarterly investor presentation will be posted on our Investor Relations website following this call. Also, the Customers page of our website includes a list of selected customers and is updated monthly.

Our first quarter fiscal 2026 quiet period begins on April 15th, 2025. Unless otherwise stated, all financial comparisons in this call will be to our results for the comparable period of our fiscal 2024.

With that, I will hand the call over to Carl.

CEO Remarks

Thank you, Justin. And thank you all for joining us today.

Workday delivered another solid quarter in Q4, with 16% subscription revenue growth and 26% non-GAAP operating margin. These results are a testament to how businesses of all sizes, industries and geographies are increasingly turning to Workday as their trusted partner. And I'm incredibly proud of how our teams executed in Q4 to deliver a solid year.

As organizations look for ways to boost productivity and run more efficiently, our value proposition has never been stronger. Workday gives them the ultimate advantage—helping them manage what matters most: their people and their money.

And with our unified platform, our customers can unlock value faster, reduce their total cost of ownership and harness the power of AI across our best in class HR and Finance solutions.

On the AI front, we just launched the Agent System of Record—a centralized system to manage all of an organization's AI agents, from Workday and third-parties alike. With this innovation, our customers will be able to manage their entire workforce—humans and digital—on our trusted platform. I'll talk more about this exciting announcement later in the call, but now let's turn to our customers and industry momentum in the quarter.

During Q4, we welcomed incredible new customers including Bayer, Henkel, Iberostar, the State of North Carolina, and First-Citizens Bank & Trust Company. We also expanded with industry leaders including Cisco, Mondelez, Sutter Health and Toyota.

Workday now serves more than 11,000 customers across industries and geographies, including more than 60% of the Fortune 500 and 30% of the Global 2000 — and that says a lot about the strategic nature of our platform.

Our industry focus is a huge contributor to this growth, and Q4 was no exception.

In SLED, the City of Minneapolis, St. Louis County and City University of New York all chose our full suite in Q4. We also signed our largest Workday Student deal ever with the Minnesota State Colleges and Universities. This is a massive project to improve the experience for 270,000 students and 14,000 faculty.

Workday Student is quickly gaining traction as the top choice for higher education institutions. We now have more than 135 customers and we expect roughly half of them will be live by the Spring. After rapid adoption here in the U.S., we're excited to expand Workday Student into Canada and the Australia/New Zealand markets this year.

We also have a growing opportunity with the U.S. federal government thanks to the administration's strong focus on driving efficiencies and IT modernization. Our recent wins at the DOE and DIA have helped set a solid foundation in this sector, opening up a number of exciting Fed opportunities.

Financial Services continues to be one of our largest industries. In Q4, we had significant expansions with Aon and Sallie Mae Bank, and we closed a large core FINS deal with a Fortune 500 organization.

Healthcare also once again delivered, with notable full suite wins including North Mississippi Medical Center, Hackensack Meridian Health, and UnityPoint Health.

More than 30% of our net new wins in the quarter were full suite, and across our focus industries of SLED and healthcare—that number climbs to 50%. We had a record number of core FINS wins in both Q4 and the full fiscal year.

We now have over 6,100 core HCM and Financials customers, and more than 2,000 of them are leveraging our full suite.

Our investments in Financials, both in innovation and go-to-market, continued to pay off with strong growth in new ACV in Q4. In addition to a record number of core Financials wins, we saw

strong momentum for our financial planning, accounting center, student, and procurement solutions.

And we continue to see increasing demand for AI solutions. In fact, AI is front and center in every conversation I have with customers, prospects, and partners. They want to move beyond incremental productivity gains—they're looking for ROI that will help drive growth back into their business.

Similar to Q3, we once again saw 30% of our customer expansions involve one or more AI SKUs, including Extend Pro, Recruiting Agent, Evisort, and our recently rolled out Talent Mobility agent.

Extend Pro, which enables our customers to build AI applications on top of our platform, continues to be one of our fastest growing SKUs. In Q4, new ACV more than doubled over Q3.

Developer Copilot, our Gen AI tool, is delivering real results. We're hearing from customers that they're seeing productivity gains of over 50%. This is helping them build apps much faster.

Recruiting Agent had an exceptional close to the year with wins at BP, Genpact and many more. New ACV in Q4 nearly doubled from Q3. And this product continues to boost the average selling price of our core Recruiting solution — in fact in Q4, it was even higher than the 1.5x uplift we reported in Q3. A great example of customers' willingness to pay for high ROI solutions.

Our approach to AI has always been customer-centric. While others rushed to charge for early Gen AI features, we integrated them into our core offering. Now that our AI has evolved, and is delivering tangible ROI, we have new monetization opportunities that will fuel our long-term growth. And perhaps more importantly, we are further distancing ourselves from the competition.

With more than one trillion transactions processed on our platform in FY25, our AI leverages the world's largest and cleanest HR and Financial dataset. And the combination of this data—with our ability to understand the context behind it—puts Workday in a unique position.

Following the announcements of our new role-based agents at Rising, we launched four more agents for contracts, payroll, financial auditing and policy.

These are not task-based agents, like most in the market today. Our role-based agents contain a configurable set of “skills” that give them greater ability to support people in their roles. Each has multiple skills and can perform a large number of tasks. That’s where the true ROI is – and where we see that customers are willing to pay.

Over the past year, hundreds—and maybe thousands—of agents have been introduced to the market across a number of vendors. As more agents are deployed, organizations risk fragmented operations, increased security risk, and difficulty measuring the true value of their AI investments. At this point, there’s no central place to manage agents, and there’s a real risk of sprawl.

That’s what the Workday Agent System of Record aims to solve. It will manage a business’ entire fleet of AI agents alongside their human workforce, all on a trusted platform. And it won’t just manage Workday agents, it will also manage customer-built agents and partner-built agents. Since the launch, we’ve had strong interest from our customers and technology partners, who’d like access to Workday’s Agent System of Record to mitigate risk in the enterprise.

Partners continue to play a strong role in Workday’s growth, and they also extend the power of the Workday platform. In Q4, more than 15% of our net new ACV was sourced through partners, up from more than 10% last quarter, and we’re just getting started!

Not only are we leaning into partners to drive increased pipeline for our core products, but we’re also collaborating with them to create new lines of business through programs like Workday Wellness, where we signed five strategic partners in Q4.

And we’re innovating with them as well. Our Built on Workday program continues to gain traction. Since its launch at the end of June, we’ve got 72 partners building and selling applications on the Workday platform.

Finally, in the quarter we also signed our first strategic talent partnership with Randstad, which brings together the power of Workday Recruiting Agent with the global candidate data pool of the largest talent company in the world to help our customers increase hiring efficiencies and drive better talent outcomes.

Turning to international, we delivered solid performance across a number of our key geographies in Q4. We also hosted a record-breaking EMEA Rising in December with 5,000 attendees which helped drive momentum in the quarter.

Despite the continued macro headwinds in EMEA, our two largest markets, the UK and Germany, had their strongest quarter of the year. This shows what I've said many times—when customers are ready to make a spending decision, Workday is the choice.

In the DACH region, we formed some fantastic new relationships in our competitors' backyards in Q4 with great German companies like Bayer and Henkel selecting Workday core HCM.

In APAC we had several important wins including Binance, Nine Entertainment, and JINGDONG.

And in Japan, we're continuing to build the foundation to grow in this important market with the opening of our Osaka office.

I want to thank my Workmates, our customers, and our partners for helping us end FY25 strong. I'd also like to recognize Doug Robinson, for helping us close the quarter on a high note. Thank you, Doug, for your dedication to building this company.

Before we close, I'd like to share a couple other leadership updates. After 10 incredible years, Sayan Chakraborty has decided to retire from Workday. He has been a driving force for our innovation strategy, and we can't thank him enough for the impact he's had.

With Sayan's retirement from Workday, we're excited to welcome Gerrit Kazmaier as our new President of Product and Technology. Gerrit joins us from Google, where he led data analytics and BI for Google Cloud. Prior to that, he spent nearly 11 years with SAP. With his expertise in AI, data, ERP, and enterprise business processes, Gerrit is the ideal person to lead our Product

and Technology strategy. Gerrit will start on March 10, and Sayan will stay on as an advisor through the end of May to help with the transition.

It's been a year of change at Workday, and we'll continue to evolve in the coming year to go after the massive opportunity ahead of us. Our recent restructuring was a tough, but necessary decision that will help us invest in the business to meet our customers' needs.

We're entering FY26—our 20th year in business—with an amazing team, renewed energy, and a clear view of how we can fulfill our founders' vision to revolutionize enterprise software...this time with AI.

Thanks again for joining us. And with that, I'll hand it over to Zane.

CFO Remarks

Thanks, Carl, and thank you to everyone for joining today's call. Our Q4 results were driven by solid performance across key growth areas of the business including continued momentum with full suite and our financials solutions, growing demand for our AI SKUs, and strong execution across key industries.

Turning to results, subscription revenue in Q4 was \$2.040 billion, up 16%, benefiting from favorable linearity of new ACV bookings within the quarter. Full year FY25 subscription revenue was \$7.718 billion, growth of 17%. Professional services revenue was \$171 million in the quarter and \$728 million for the year.

Total revenue in Q4 was \$2.21 billion, growth of 15%, and for the full year was \$8.45 billion, up 16%. U.S. revenue in Q4 totaled \$1.66 billion, up 15%, and international revenue in the quarter was \$556 million, growing 16%. For the year, U.S. revenue was \$6.33 billion, up 16%, and international revenue was \$2.11 billion, up 17%.

12-month subscription revenue backlog, or cRPO, was \$7.63 billion at the end of Q4, growing 15%. Early renewal activity in the quarter was slightly higher than expected and contributed to the outperformance. Total subscription revenue backlog at the end of Q4 was \$25.06 billion, up 20%, and gross revenue retention rates remained strong at 98%.

Non-GAAP operating income for the fourth quarter was \$584 million, representing a non-GAAP operating margin of 26.4%. The year-over-year improvement benefited from a combination of revenue outperformance, ongoing cost discipline, and improved efficiencies across the company. Full-year non-GAAP operating income was \$2.19 billion, reflecting a non-GAAP operating margin of 25.9%.

GAAP operating income in the quarter was impacted by a \$75 million dollar charge, primarily related to the previously announced restructuring.

Q4 operating cash flow was \$1.11 billion dollars, resulting in full-year operating cash flow of \$2.46 billion dollars, growth of 15%.

We repurchased \$99 million dollars of our shares during the quarter and \$700 million dollars for the full year, helping drive annual dilution below 1% for the year. The timing and amount of our repurchase activity in the quarter was impacted by trading constraints. We had \$802 million in remaining authorization as of year-end.

We ended the year with \$8 billion dollars in cash and marketable securities.

Our headcount as of January 31 was approximately 20,400 workmates, not reflecting the restructuring that took place in early February, which we expect will reduce our workforce by approximately 8%.

Now turning to guidance. We're pleased with the execution we are driving across several of our key strategic areas, and given our solid performance in the fourth quarter, we continue to expect FY26 subscription revenue of approximately \$8.8 billion dollars, growth of 14%. This outlook also includes the impact of the continued strengthening of the U.S. Dollar - which is a roughly \$20 million dollar incremental headwind since we provided guidance last quarter.

We anticipate Q1 FY26 subscription revenue to be approximately \$2.050 billion, growth of 13%, or 14% when normalizing for the effect of the leap year last Q1. We expect cRPO to increase between 14.5% and 15.5% in Q1.

We expect subscription revenue to increase roughly 5.5% sequentially in Q2. We continue to expect a slightly faster pace of year-over-year subscription revenue growth in the second half of FY26 relative to the first half. This is driven by continued momentum across our investment initiatives, in addition to revenue building from certain deals we closed in FY25 and discussed on our last earnings call.

We anticipate FY26 professional services revenue of approximately \$700 million dollars, as we continue to leverage our partner ecosystem. For Q1, we expect professional services revenue of \$165 million dollars.

We expect FY26 non-GAAP operating margins of approximately 28%. This outlook incorporates an accelerated pace of AI investment across our platform and targeted investments across key areas of the business. We will also continue to drive efficiencies and look for improvements in operating our business at scale. For Q1, we expect a non-GAAP operating margin of 28%.

GAAP operating margin for the first quarter is impacted by the previously announced restructuring. We expect to incur an additional restructuring expense of approximately \$180 million dollars in the quarter, which will be excluded from our non-GAAP results. We expect the GAAP operating margins to be approximately 30 and 21 percentage points lower than our Q1 and full year FY26 non-GAAP operating margins, respectively.

The FY26 non-GAAP tax rate is expected to be 19%.

We expect FY26 operating cash flow of \$2.75 billion, which includes roughly \$180 million of cash outflows related to the restructuring, which we expect will be incurred in the first half of FY26.

We expect FY26 capital expenditures of approximately \$250 million dollars, down slightly from FY25.

We enter the new fiscal year with clear momentum, and are focused on investing strategically to support our medium term objectives of mid-teens subscription revenue growth and non-GAAP 30% non-GAAP operating margin, while building the foundation to support enduring growth and margin expansion.

With that, I'll turn it back over to the operator to begin Q&A.

[END OF PREPARED REMARKS]
