

**Workday, Inc.**  
**Second-Quarter Fiscal 2025**  
**Prepared Remarks**  
**August 22, 2024**

**Introduction**

Thank you, Operator.

Welcome to Workday's second quarter fiscal 2025 earnings conference call. On the call we have Carl Eschenbach, our CEO, Zane Rowe, our CFO, Doug Robinson, our Co-President, 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 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 third quarter fiscal 2025 quiet period begins on October 15th, 2024. 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.

I'm pleased to report that Workday delivered another solid quarter, highlighted by 17% subscription revenue growth, 16% 12-month backlog growth, and 25% non-GAAP operating margin.

Though we continued to experience deal scrutiny and moderated headcount growth within our customer base, our win rates remain high and our teams delivered a very solid Q2. I couldn't be prouder of our Workmates and partners for their continued focus on driving customer value and success.

Right now, companies are focusing their investments on the areas that will help them increase productivity and improve their operations.

Workday gives them the ultimate advantage. We help them manage their two most fundamental elements of their business: their people and their money—all on a unified, AI-powered platform.

Workday empowers businesses to increase productivity, deliver incredible employee experience, and drive greater efficiencies across finance. And because all our products are built on the foundation of our platform, our customers can unlock value faster and reduce total cost of ownership.

This is evident in the healthy growth we're seeing in full suite wins and in our balance of net-new relationships and customer expansions. It's also contributing to our momentum, which helped us

debut on the prestigious Fortune 500 list in Q2. We couldn't be prouder to be amongst the largest, most influential companies in the U.S., with more than 60% of them being Workday customers.

Businesses of all sizes, industries and geographies increasingly turn to Workday as their trusted partner.

In Q2, we expanded with J.B. Hunt, Nissan, Target, and Trinity Health, and we formed new relationships with Lam Research, the City of Cleveland, Colorado State University System, and Johns Hopkins, among many others.

We strengthened our leadership in the HCM market globally, with key wins including GE Vernova, First Bus, Sunrise Senior Living, along with several notable wins in EMEA and APAC.

And our continued investment in Financials is helping us drive momentum across the platform. In Q2, we officially crossed the 2,000 customer milestone in Workday Financial Management. And, Workday was ranked the market share leader for Worldwide SaaS ERP revenue in 2023 by Gartner® research.

From an industry perspective, we had a banner quarter in our longest-standing vertical—Higher Education. Leading institutions including Florida A&M, the University of Mississippi, and Clemson University all selected Workday's full suite in Q2.

Clemson started as a Workday Adaptive Planning customer and added HCM and Financial Management in the quarter. The partnership with Workday represents a significant milestone in their transformation journey to modernize systems and improve experiences for faculty, staff, and students.

We once again had strong momentum in Healthcare with full-suite wins at Grady Health System, Reid Health, and Children's National Medical Center.

Our success in state and local government continued in Q2 as well, with wins at Delaware County, County of San Joaquin, and Santa Cruz County.

I also want to call out the expansion momentum we're seeing with VNDLY and our ability to deliver a complete workforce management solution—spanning salaried employees to hourly, contingent, freelance, and outsourced workers. Cushman & Wakefield, Lowe's, and Ryder Truck all added VNDLY in Q2.

Beyond the wins, we celebrate when our customers go live on our platform. AutoNation, Barclays, CDW, Cross Country Mortgage, Forvis Mazars, and Texas Roadhouse all successfully deployed on Workday in Q2.

Global growth continues to be a massive opportunity for Workday, and we had a strong performance in APAC and Japan regions in Q2, along with several strategic wins in EMEA.

In Australia, Workday was accepted to the government's Digital Transformation Agency Software Marketplace for ERP, opening new opportunities with federal agencies.

We also expanded our business with a Ministry in New Zealand and had a full-suite win at Kelsian Group Limited.

We're setting a strong foundation for our business in Japan, which performed very well in Q2. We formed new relationships with Terumo Corporation and Shizen Energy and expanded our business with Tokyo Electron.

In Europe, we experienced the same deal scrutiny I discussed in Q1, but the team was able to deliver more large deals than last quarter including Emeis, Saint-Gobain, and Groupe Atlantic Synergy. Additionally, our Elevate events across the region in Q2 outperformed our pipeline expectations, and our partner momentum is building in key markets across EMEA. In fact, two of the largest deals we closed in the region were sourced from partners.

We innovate to drive customer success and deliver true business value, and that's why customers are coming to Workday for our AI innovation. They want to partner and they're looking to us to lead them into the future.

Workday AI is fueled by the quality and quantity of our data set and Workday's understanding of our customers' HR and Finance processes. We now have more than 70 million users under

contract conducting more than 800 billion transactions on the Workday platform annually. This data and the context behind it gives us the ability to unlock productivity in a way no other company can.

In Q2, we announced new AI innovations to help our customers hire the right talent—better and faster than ever before. For instance, our new AI capabilities in our HCM product identify emerging skills and simplify job profile management to accelerate skills-based talent strategies.

Just one quarter after closing the HiredScore acquisition, we made HiredScore AI for Recruiting and HiredScore AI for Talent Mobility available for purchase under one unified contract. The HiredScore team is off to a great start, and we're continuing to build pipeline across our recruiting customers.

And what better validation than this quote from our customer at Southwest Airlines, who called HiredScore a *“game changer that’s setting new standards in talent management.”*

Through the power of our platform, we're enabling AI innovation not only from Workday, but from our customers and partners as well.

In Q2, at our annual developer conference, we launched new APIs in our AI Gateway. We also introduced Workday Extend Developer Copilot, leveraging Gen AI to help developers to build custom applications on our platform, faster than ever before. Extend remains one of our fastest growing SKUs. New ACV increased more than 75% in Q2, driven by Extend Pro, which taps into the power of Workday AI.

Many of our customers are already realizing incredible value from Workday AI. For example, a HiredScore for Talent Mobility customer saw a 40% increase in internal application rates. For one of our entertainment customers, invoice automation is driving a 70%+ increase in processing capabilities. And for another customer, our Talent Optimization product, which is one of our fastest growing SKUs, helped reduce turnover by 39%. And the list goes on...but, we're just scratching the surface.

The industry has been focusing on fitting AI into how we work *now*... NOT on what work should look like *next*... We see an opportunity to exponentially increase the value to our customers by reimagining end-to-end HR and Finance processes through the power of AI.

At Workday Rising, we will introduce the next generation of AI to illuminate the future of work. For the past 10 years, we've been building towards this vision. And we're excited to showcase Workday innovations that will not only accelerate how work gets done, but ultimately transform how customers run their businesses.

We're expecting more than 30,000 virtual and in-person attendees at Rising this year—our biggest event yet. In addition to unveiling our AI vision, we'll also showcase new innovations across our applications, platform, and user experience.

I mentioned before that our partner ecosystem is a powerful driver of customer success and it continues to grow in both breadth and depth. In Q2, partner contributions to new ACV more than doubled from last quarter, and partners had another record quarter of pipeline generation. And we're just getting started!

In the quarter, we launched Built on Workday to make it easy for our partners to build, distribute and monetize their applications on the Workday Platform. Our longstanding partner Kainos was among the first to lean into this new program, with several more partners already active early adopters.

We continue to open the aperture to partners as a driver of both sales and innovation, and in Q2 we announced new partnerships that will help us deliver even greater value.

Our partnership with Salesforce is a perfect example. Whether it's accelerating employee onboarding, enabling continuous financial planning, or closing deals faster – our partnership is bringing humans and AI together to drive success for employees and customers. And it's all made possible by bringing together the most important datasets in the enterprise.

And today, we are announcing a new Employment Verification Connector for Equifax, making it easier for customers to transmit data for employment verification requests.

As you can see, it was a big quarter for our ecosystem and we are looking forward to continuing this momentum in partner-led growth.

Before I turn it over to Zane, I'd like to update you on how we're planning for the medium term.

We continue to build Workday as a durable business with balanced growth and margin expansion—something I've been saying since I joined the company nearly two years ago.

Our key growth areas are already paying off and creating momentum for our future. They amplify our opportunity to bring in new customers, and to expand our footprint with existing customers.

Over the past year, we've been able to see how our growth areas are developing, particularly in the current selling environment. And, we've identified opportunities to drive efficiencies across the business.

In light of this, we're making some adjustments to our medium-term plans, including a slightly moderated pace of subscription revenue growth balanced with accelerated margin expansion.

Our revised medium-term outlook reflects the confidence we have to drive durable, profitable growth at scale. We're focused on continuing to gain share in our core markets of HR and Finance, while delivering strong operating income growth and continuing to innovate for our customers and partners.

I couldn't be more excited and energized about the opportunity ahead, and we are thrilled to have you on the ride with us.

With that, I'll turn it over to Zane.

### **CFO Remarks**

Thanks, Carl. And thank you to everyone for joining today's call. Our Q2 performance was slightly ahead of our expectations across all key metrics.

Subscription revenue in the second quarter was \$1.903 billion, up 17%. Professional services revenue was \$182 million in the quarter, leading to total revenue in Q2 of \$2.085 billion, also growth of 17%.

U.S. revenue in Q2 totaled \$1.56 billion, up 16%, and international revenue totaled \$524 million, growing 18%.

12-month subscription revenue backlog, or cRPO, was \$6.80 billion at the end of Q2, representing growth of 16%. The year-over-year growth rate was impacted by the strength in last year's renewal activity - including early renewals. Gross and net revenue retention rates remain strong at over 95%, and over 100%, respectively.

Total subscription revenue backlog at the end of the quarter was \$21.58 billion, up 21%.

Our non-GAAP operating income for the second quarter was \$518 million, resulting in a non-GAAP operating margin of 24.9%.

Q2 operating cash flow was \$571 million, growing 34%, driven by strong collections.

We accelerated the pace of our buyback in Q2, repurchasing \$309 million of our shares at an average price of \$223.10 per share. With our existing \$500 million buyback authorization nearing completion, our board has authorized a new \$1 billion share repurchase program. We remain committed to investing in organic growth, pursuing strategic M&A opportunities, and managing dilution while returning excess capital to shareholders via share repurchases.

We ended the quarter with \$7.4 billion in cash and marketable securities.

As of July 31, headcount stood at over 19,900 workmates around the globe.

Now turning to guidance. As Carl indicated, we continue to see the macro environment consistent with our last quarter - including moderated headcount growth within our customer base - and as we discussed last quarter, we expect these trends to continue.

We are reiterating our full-year FY25 subscription revenue guidance of \$7.700 billion to \$7.725 billion, growth of approximately 17%.



We expect Q3 FY25 subscription revenue to be \$1.955 billion, growth of 16%.

We expect FY25 professional services revenue of approximately \$680 million to \$690 million, driven by customer demand. For Q3, we expect professional services revenue of \$175 million.

Turning to backlog. In Q3, we expect cRPO growth also to be impacted by last year's strong early renewal activity. As a reminder, last year the gap between cRPO growth and subscription revenue growth was roughly four percentage points in Q3. As we lap the strong renewal activity from last year, we expect cRPO growth of 14% to 15% for Q3. While the growth rate is impacted by the timing of renewals, the aggregate cRPO level supports our view of subscription revenue growth of approximately 16% for the second half of the year.

We continue to balance both targeted investments in key growth areas with increased focus on end-to-end companywide efficiencies and transformation. We now expect FY25 non-GAAP operating margin of 25.25%.

For Q3, we also expect non-GAAP operating margin of 25.25%.

GAAP operating margin for the third quarter and full year are expected to be approximately 19 and 20 percentage points lower than the non-GAAP margins, respectively.

The FY25 non-GAAP tax rate remains at 19%.

We are increasing our FY25 operating cash flow expectations to \$2.350 billion and we continue to expect capital expenditures of approximately \$330 million.

Over the past year, we've made good progress across our key growth areas. While a number of these initiatives are still early in their development, they are already supporting growth in FY25 as well as for future years as they scale across our products and geographies.

Our focus areas have been ramping over the past year, providing us better insight into how their growth trajectories augment our core business. As we incorporate this into our planning, along with the current environment, we now expect subscription revenue growth in the mid-teens for both FY26 and FY27. We're seeing success across full suite opportunities, the partner ecosystem, and international markets, along with emerging areas like Federal and Built on

Workday, which help reinforce our conviction in enduring growth as we strengthen our market leadership in cloud ERP.

In addition, we now expect to deliver greater margin expansion than previously planned. Investing to support durable growth remains a core focus, and at the same time, we've made progress driving efficiencies as we continue to scale the business globally. We are relentlessly focused on scaling all of our processes across the company as we review our product and go-to-market initiatives. We are also becoming increasingly more targeted in our growth investments, balancing product development with go-to-market resources. With this, we are driving to enhance ROI across our portfolio, while we continue to execute on opportunities to drive growth in the business.

With that context, and assuming M&A levels consistent with recent history, our updated expectations for FY26 and FY27 are for annual subscription revenue growth of approximately 15% while expanding non-GAAP operating margin to 30% over the same period. This updated framework also increases our expected FY27 cash flow.

Our focus remains leveraging the power of the platform to deliver durable, long-term top- and bottom-line growth. We look forward to sharing more at our upcoming financial analyst day on September 17.

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

**[END OF PREPARED REMARKS]**

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