

Workday, Inc.
First Quarter Fiscal 2026
Prepared Remarks
May 22, 2025

Introduction

Welcome to Workday's first quarter fiscal 2026 earnings conference call. On the call we have Carl Eschenbach, our CEO, Zane Rowe, our CFO, and Gerrit Kazmaier, our President, Product & Technology. 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 2025 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.

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

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

CEO Remarks

Thanks, Justin. And hello to everyone joining us on our call today.

I'm pleased to report that Workday delivered a solid first quarter. We drove 13% subscription revenue growth and a non-GAAP operating margin of 30%. This performance was fueled by strong customer adoption across key verticals, geographies, and customer segments.

We all know the economic environment remains a bit uncertain, but I'm incredibly proud of how our teams are staying focused on our customers' success, and THAT is driving our results.

Workday's value proposition remains highly relevant in today's market. The CEOs I meet have three key priorities: they want to drive efficiencies, they need to be agile in response to market shifts, and they want to unlock growth with innovation. And from our perspective, they're turning to Workday for all three.

We help manage and optimize their most critical assets—that is their people and money—on one platform with AI at the core. This unified approach reduces total cost of ownership and helps them move faster, with greater precision.

Our customers trust that Workday's AI is powered by the largest and cleanest finance and HR dataset. Our AI is fueled by more than 70 million users under contract and 1 trillion transactions processed on the platform last year, which gives us a deep understanding of HOW people work. This enables us to deliver highly differentiated value to our customers. I'll speak more about that in a moment. But first, let's turn to our customer highlights for the first quarter.

In Q1 we established new HCM relationships with United Airlines, Pilot Travel Centers, and Mutual of Omaha Insurance Company. And it was another strong quarter of expansions with customers such as FedEx, CVS Health, ASDA stores and Chipotle.

Our investment in Financials continues to pay off, with solid growth in both net new ACV and customers. More than 30% of our net new wins this quarter were once again full suite, and in our focus industries of SLED and healthcare it was more than 50%. We also had some strategic Financials go-lives this quarter, including BJ's Restaurants, Essentia Health, and Genesys Cloud Services.

Our AI innovation continues to gain traction—new ACV across our AI products more than doubled year over year in Q1. And roughly 25% of our customer expansions in the quarter included one or more of these products, such as Recruiting Agent, Talent Mobility Agent, Evisort and ExtendPro. Fantastic companies including Visa, LabCorp, and Aon all selected our AI products.

I'm also excited about the momentum we're building with the office of the CIO. We're driving increasing demand for ExtendPro, which enables our customers to build AI applications on top of our platform. This continues to be one of our fastest growing products, and it's amplifying innovation for our customers.

While Workday serves more than 60% of the FORTUNE 500, 75% of our customers have fewer than 3,500 employees, and we see a significant growth opportunity in the emerging and medium enterprise market.

In Q1, we launched WorkdayGO specifically for these companies. It gets them up and running on our enterprise-grade platform fast—we're talking implementations in as little as 30 to 60 days with pre-configured deployment. And it's not just the software. They get the full support of our partner ecosystem and a clear, fixed pricing model. It really moved the needle for us in Q1, helping our emerging and medium enterprise teams deliver a strong quarter.

Now, let's talk about industries. I'm excited to share that we now have five industries exceeding \$1 billion in annual recurring revenue. Manufacturing and Tech and Media — two industries that had a solid quarter in Q1 — recently reached this milestone. They join our three other billion-dollar industries: Financial Services, Retail and Hospitality, and Professional and Business Services. Like I've mentioned many times, this shows the strength and diversity of our business.

Our focus on the Federal sector continues to pay off. We are building a foundation for long-term growth in this market. This was clear in the huge success of our third annual Federal Forum. Attendance was up 65% at this year's event, and we had some great conversations with senior government leaders about the critical need for transforming the federal workforce, especially in key areas such as AI, security, and skills.

We're also very proud of our leadership in Higher Education. We were just named a leader in the first-ever Gartner® Magic Quadrant™ for Higher Education Student Information Systems Software as a Service¹. In Q1 we were thrilled to welcome Centre College, Bow Valley College, and Gannon University as new customers. And we're seeing great success with Workday Student go-lives, including the University of Arkansas System, which is now fully live at 14 institutions across the entire state.

In an environment where everyone is trying to do more with less, Workday gives our customers the ultimate advantage. AI is built directly into our platform and it's always on, greater than 60% of our customers already leveraging Workday Illuminate AI. We're excited by the adoption we're seeing, but we're even more excited about the strong ROI our customers are getting from our AI solutions.

Look at Western Union, a longtime Evisort customer. Using Evisort's AI powered contract management solution, which was made available through Workday in Q1, they were able to process contracts 65% faster, while reducing associated outside legal spend by almost 70%. Just incredible results! The Evisort team had a fantastic Q1 - and they're just getting started. Customers are clearly willing to pay for these types of results, which opens up significant new AI monetization opportunities to help fuel our long-term growth and set us apart from the competition.

When we look at our roadmap, our focus is on delivering innovations that drive meaningful ROI for our customers. In fact, our Agents must meet specific TCO, or total cost of ownership requirements with our early adopter customers before we even bring them to market.

Just this week, we announced a wave of new AI Agents that harness the power of our unmatched dataset to help amplify talent potential, reduce costs, accelerate decision-making, and mitigate risk.

And to keep us at the forefront of AI innovation, we're really excited to welcome Peter Bailis as our new Chief Technology Officer. Peter will lead our AI and ML initiatives, driving our vision forward. With his background at Stanford and Google Cloud, he has a proven track record of AI innovation at scale, and I couldn't be more excited he chose Workday.

Partners continue to be a critical driver of our success – extending the power of our platform, fueling pipeline growth, and bringing new innovations to our customers. In Q1, we once again saw great contributions from our partners—with more than 20% of our net new ACV in the quarter coming from partner-sourced pipeline.

Partners are also critical in helping us expand into new markets and meet the diverse needs of our global customers. In Q1 we signed our first volume Managed Service Provider partnership with The Mutual Group (TMG) to serve the mutual insurance industry. Additionally, our Global Payroll Connect program now supports payroll delivery in 187 countries and territories, thanks to 29 partners building integrations. And through our partnership with Strada, our customers can manage up to 60 global payrolls all under a single Workday contract.

On the innovation front, we're seeing strong momentum in our “Built on Workday” program. In Q1 alone, we added 25 new partner apps to the Workday Marketplace.

Our community of customer and partner developers has nearly doubled over the past year—a testament to the power of building on the Workday platform. And in just two weeks we'll host thousands of them at our developer conference, Devcon, in Las Vegas.

Our investments in our global strategy are helping us better serve our existing customers, attract new ones and make our operations even more efficient. In Q1, we saw solid growth across EMEA, Asia Pacific and Japan.

In EMEA, we had notable net new wins with Opella Healthcare and global manufacturer Georg Fischer and we expanded with semiconductor equipment manufacturer ASML, and insurance provider Aviva. We also had a major Financials expansion with Decathlon, as this relationship continues to grow.

As part of our ongoing investment in the U.K., we went live on the AWS U.K. public cloud, making it possible for customers to access Workday solutions locally. We also announced a new location for our EMEA headquarters in Dublin, which will bring our local workforce of more than 2,000 employees together.

APAC had a strong start too, with wins at Swinburne University of Technology, the University of Melbourne in Australia, Collins Foods and PPL Pharma.

And finally, Japan kicked off the year with new wins at Mitsubishi Motors, TEPCO, and Rigaku.

In Q1, we saw the diversity and durability of our business firsthand, with multiple levers driving long-term growth.

Looking ahead, we're staying close to our customers as they navigate the macro environment. No company is immune to these challenges, and we're watching it across particular markets such as SLED and our international business. That said, we've got a compelling value proposition and our teams are focused on controlling what we can - and that is to deliver innovation and strong ROI for our customers.

The future of work has evolved. During the pandemic, it was about where people worked and how they collaborated. Today, it's about how humans and AI agents work together – and how companies manage the human and digital workforce as one.

I believe no company is better positioned than Workday to lead this shift. With our expertise, our unparalleled data, and a platform built with AI at its core, we're ready to shape the future of work.

I want to give a heartfelt thank you to our customers for their continued trust in Workday, to our incredible partners, and especially to our Workmates around the world. Your hard work and commitment gave us such a solid start to the year – and I couldn't be more grateful. With that, I'll hand it over to Zane.

CFO Remarks

Thanks Carl, and thank you to everyone for joining today's call. Our solid Q1 results highlight the ongoing progress across our strategic growth areas, and the continued efficiencies we are driving throughout the business.

Turning to results, subscription revenue in the first quarter was \$2.059 billion, up 13%, or 15% when adjusting for the leap year compare. Professional services revenue was \$181 million, resulting in total revenue of \$2.240 billion, growth of 13%.

From a geographic perspective, U.S. revenue in Q1 totaled \$1.68 billion, up 13%, and international revenue totaled \$559 million, also up 13%.

12-month subscription revenue backlog, or cRPO, was \$7.63 billion at the end of Q1, increasing 15.6%. This includes approximately half-a-point of growth from subscription contracts related to implementation and testing environments, which we refer to as tenants. While these short-term contracts have and continue to be part of our subscription revenue, we are now including them in cRPO as they have grown with the business.

Total subscription revenue backlog at the end of the quarter was \$24.62 billion, up 19%, and gross revenue retention rates remained a strong at 98%.

Non-GAAP operating income for the first quarter was \$677 million, representing a non-GAAP operating margin of 30.2%. The outperformance versus guidance was the result of moderated headcount growth, along with revenue outperformance. GAAP operating income in the quarter of \$39 million was impacted by a \$166 million charge related to the restructuring which occurred earlier in the year.

Q1 operating cash flow was \$457 million, growth of 23%.

We repurchased \$293 million dollars of our shares during the quarter and had \$509 million in remaining authorization as of April 30. In addition, our board has approved a new \$1 billion open ended buyback authorization.

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

Our current headcount, which incorporates the previously announced restructuring, stands at approximately 19,300.

Now turning to guidance. Our Q1 subscription revenue performance, and progress across the key initiatives Carl highlighted earlier, positions us well for the year and we are reiterating our subscription revenue guidance of \$8.8 billion. Our outlook benefits from our diverse set of opportunities, and the important role that our platform plays across our customer base and partner ecosystem. While there is heightened macro uncertainty - particularly across certain markets and verticals - we haven't seen this meaningfully impact our business and our growth prospects. Though it's early in the year and the environment remains fluid, we remain focused on execution and our strategic initiatives.

We anticipate Q2 FY26 subscription revenue to be approximately \$2.160 billion, growth of 13%. We continue to expect a slightly faster pace of subscription revenue growth in the second half of the year - particularly in Q4 - driven in part by revenue from product deliverables associated with previously closed deals.

We expect cRPO to increase between 15% and 16% in Q2. This includes approximately a point of growth from the previously discussed tenant contracts. We expect a similar quarterly impact of approximately one percentage point to cRPO growth for the remainder of the year.

We continue to expect FY26 professional services revenue of approximately \$700 million. For Q2, we expect professional services revenue of \$180 million.

We expect FY26 non-GAAP operating margin of approximately 28.5%. This outlook accounts for the Q1 outperformance, along with continued investments across key growth areas including AI, our partner ecosystem, and targeted international markets. In addition, it includes our ongoing efforts on growing efficiently. We continue to position the business to drive long-term growth AND margin expansion.

For Q2, we expect a non-GAAP operating margin of 28%.

We expect GAAP operating margins to be approximately 20 and 21 points lower than our Q2 and full-year FY26 non-GAAP operating margins, respectively.

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

We are maintaining our FY26 operating cash flow outlook of \$2.75 billion, and we continue to expect FY26 capital expenditures of approximately \$250 million.

Entering Q2, our teams remain dedicated to delivering value to our customers, driving innovation, and strategically investing in our key growth areas to deliver on our medium and long-term objectives.

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

[END OF PREPARED REMARKS]

¹ 2025 Gartner® Magic Quadrant™ for Higher Education Student Information System Software as a Service. By Grace Farrell, Robert Yanckello, 24 March 2025.

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