

Workday, Inc.
Second Quarter Fiscal 2026
Prepared Remarks
August 21, 2025

Introduction

Thank you, Operator.

Welcome to Workday's second 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, a copy of the prepared remarks and our quarterly investor presentation will be posted on our Investor Relations website following this call.

Our third quarter fiscal 2026 quiet period begins on October 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

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

Workday delivered another solid quarter, with 14% subscription revenue growth and non-GAAP operating margin of 29%. We built great momentum in Q1, and we kept it going in Q2 with strong customer adoption across key verticals, geographies, and segments.

Customer engagement with Workday has never been higher. Our Customer Experience Center in Pleasanton is absolutely buzzing—In fact I feel like I’m living there lately! To keep up with all the demand, we are opening new CXC’s in New York and London.

Customers are choosing Workday because we help them unlock value today and we prepare for whatever’s next—whether that’s navigating AI transformation, streamlining operations, or creating more meaningful work for their people. That’s where the Workday platform gives them the ultimate advantage. We help manage and optimize their most critical assets— their people and their 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.

And our AI value proposition is highly relevant in today’s market. Workday Illuminate is fueled by the largest and cleanest finance and HR dataset. With more than 75 million users under contract and a trillion transactions processed last year alone, Workday has a deep understanding of how people work — and how to make work better.

This ability to deliver real, differentiated value is what drove our customer momentum in Q2. Now let’s talk about our customer highlights.

In Q2, we formed new HCM relationships with Carrefour, Memorial Health, Smurfit-Westrock, and Banamex. We also had impressive expansions with Sanofi, Blue Origin, and Google.

We are proud to serve more than 65% of the Fortune 500, but what's even more exciting is to see the traction we're seeing in the emerging and medium enterprise, driven by the launch of WorkdayGo in Q1.

Our focus on Financials continues to fuel demand for our full suite. This quarter, roughly 30% of our net-new deals were full suite, with that number rising to 50% or more in industries like SLED and healthcare. Red Coats, Michels, and US Physical Therapy were just a few of our full-suite wins in the quarter.

Beyond the wins, we also celebrate go-lives. Salesforce—a long-time HCM customer—went live on Workday Financial Management and Accounting Center in the quarter. They're all-in on Workday. By unifying their HR and financial data on our platform, they're getting entirely new insights about their business to support their innovation and growth. We also had full suite go-lives with Advocate Health, Honor Health, and University of Melbourne.

I mentioned earlier in the call that AI is front and center in nearly every customer conversation. More than 30% of our customer base deals and more than 75% of our net-new deals included one or more of our AI products, such as Talent Optimization, Recruiting Agent, Talent Mobility Agent, Contract Intelligence Agent powered by Evisort, and Extend Pro. And, net-new ACV from our AI products once again more than doubled year over year. We had fantastic AI wins at Trinity Health, Chipotle, and Cox Health just to name a few.

Now let's talk about industries. Financial services had a standout quarter with an expansion at Nationwide Insurance—which added core Financials—and wins with Guaranteed Rate, Handelsbanken, and Miller Insurance Services.

In SLED, we had our first state go live on FINS in Q2 with the State of Rhode Island. And, we had a huge competitive win at the University of Virginia and UVA Health, an academic health system that includes a medical center, the School of Medicine, and a network of community hospitals throughout Virginia.

We also continue to expand our work with the U.S. federal government, where our engagement across the Department of Defense, the Intelligence Community, and Civilian Agencies has never been stronger.

In Q2, we launched Workday Government—a wholly owned subsidiary dedicated to serving the unique needs of the U.S. Government. With this sector facing a once-in-a-generation opportunity to modernize its aging infrastructure, our value proposition has never been more relevant. By combining our proven platform, AI leadership, and deep commitment to public service, we're poised to deliver real impact for millions of government workers while also unlocking meaningful, long-term growth for Workday. And with the government leaning heavily into AI, we see tremendous opportunity ahead for many years to come.

And finally, as we shared last quarter, our Tech and Media industry crossed \$1 billion in ARR and the team followed it up with another strong quarter here in Q2.

Turning to innovation—our roadmap is focused on delivering purpose-built AI solutions for HR and Finance that drive tangible business value and real ROI. And more than 70% of our core customers are now leveraging Workday Illuminate.

In May, we announced new agents that leverage our unmatched dataset to help customers amplify talent, reduce costs, accelerate decision-making, and mitigate risk. And at Workday Rising in a few weeks, we will unveil exciting AI and platform innovations, partnerships, and new ways to make it easier for customers to access and get value from our AI solutions.

While we continue to invest heavily in organic innovation, we're also making strategic acquisitions. We're focused on finding purpose-built solutions and exceptional teams that complement our strategy, strengthen our leadership and allow us to deliver even greater value to our customers.

And today, I'm thrilled to share the exciting news that we've signed a definitive agreement to acquire Paradox—a breakthrough candidate experience agent that uses conversational AI to completely reimagine the job application experience.

Paradox turns long, complex hiring processes into fast, natural language conversations—making it easier for people to find work and for companies to fill critical roles, especially in frontline industries like retail, healthcare, hospitality, transportation, and manufacturing.

With Workday Recruiting, HiredScore and now Paradox, we will be able to deliver an incredibly powerful AI-powered talent acquisition suite—helping customers find, hire, and onboard every type of worker, for every type of work.

Now, let's turn to our platform. We're continuing to evolve Workday as not only the best application for people and money, but the best platform as well. And you can see that strategy play out in the incredible growth of Workday Extend. In Q2, new ACV from ExtendPro more than doubled year-over-year—driven by demand to build custom applications and experiences on top of Workday.

Developers are embracing Workday's tools, including Extend and our AI APIs to expand the Workday footprint in new industries, markets, and territories. In fact, we now have more than 100 Marketplace Apps live on Workday Marketplace, which has doubled since the start of FY26.

To accelerate that innovation, we launched enhancements to Workday Developer Co-Pilot in Q2. This makes it even easier for developers to integrate AI capabilities into their apps and agents. We also launched our AI Agent partner network and the AI agent gateway, making it simple for partners to connect their agents to the Workday Agent System of Record. We're thrilled to have AWS, Google Cloud, PwC, and Glean among the first to sign on.

We rolled out these innovations at DevCon, our annual developer conference. The excitement was incredible—we saw record turnout, and our developer community has now doubled in size year over year.

And we're not stopping there. You may have seen that we also recently acquired Flowise, a leading low-code platform for building powerful agents. Flowise will turbocharge our customers' ability to create and deploy new AI agents at scale. It is built on an open-source foundation and is already processing millions of chats and workflows. It has earned more than 42,000 GitHub stars and is gaining strong adoption across industries.

And not only does Workday continue to invest in promising innovation, we also attract the best people in the industry. Peter Bailis, our new Chief Technology Officer, is now on board and already driving our AI and platform agenda. And we didn't stop there as we brought in several new technical leaders across our platform, emerging and medium enterprise, and security teams in Q2 as well.

Partners are critical to our success—extending the power of our platform, fueling our pipeline, and delivering new innovations to our customers. For the second quarter in a row, more than 20% of our net-new ACV signed in the quarter was sourced from partners.

Strategic partnerships are helping us generate new revenue streams and enhance employee services. In the quarter, we expanded our partnership with DailyPay, giving employees easier access to earned wages before payday. Another great example is our Employment Verification Connector for Equifax, announced a few quarters ago.

Workday Wellness continues to gain momentum, with Benepass, Chime, and NY Life joining in the financial benefits category, and Voya joining in the health benefits category. In its first year, customer response has been incredible, and it's already been recognized as one of the Top HR Products of the Year by HR Executive and HR Tech.

Similar to the partner ecosystem, our international business remains a major growth opportunity for Workday. And we delivered a solid Q2 across regions – notably in EMEA.

Germany and the UKI were standouts in the region, with wins and expansions at Haven Leisure, Johnston Carmichael Scotland and DQS Holding to name a few.

In APAC, we had great wins with Qantas and Lumas Imaging. We also signed our first deal in Vietnam with Masan Group—a top conglomerate spanning retail, banking and infrastructure. And our investments in Japan over the last couple of years are really starting to pay off with continued momentum and expansions including Tokyo Electron and Astemo in the quarter.

As we continue to expand our global footprint, India is a key part of our strategy. In Q2, we hired Sunil Jose as President of India, announced we will begin offering services through a local data center, and we're growing our teams and our partner ecosystem in this critical market.

We're heading into the second half of the year with incredible momentum—driven by our AI innovation, our unified platform, our ecosystem, and of course our Workmates. We continue to be a magnet for exceptional talent, attracting world class leaders to Workday across all functions.

We're building for the long term while executing in the near term—and I couldn't be more excited about what's ahead. When we put AI to work for people—not in place of them—we unlock potential we've only begun to imagine. That's the future we're creating with our customers, and I can't wait for you to see what we achieve together.

I'm deeply grateful to our global Workmates, our customers, and our partners for making Q2 such a solid quarter. And I look forward to seeing many of you at Workday Rising and our Financial Analyst Day on September 16, where we'll share more about how we're shaping an AI-powered, human-centric, and future-ready work day.

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

CFO Remarks

Thanks Carl, and thank you to everyone for joining today's call. Our Q2 results were supported by ongoing momentum across several of our growth areas, as companies around the globe turn to Workday to manage and empower their most mission-critical assets.

Turning to results, subscription revenue in the second quarter was \$2.169 billion, up 14%. Professional services revenue was \$179 million, resulting in total revenue of \$2.348 billion, growth of 13%.

U.S. revenue in Q2 totaled \$1.76 billion, up 13%. International revenue totaled \$584 million, up 11%. This includes a three-point impact year-over-year from an increased mix of international partner deployments.

12-month subscription revenue backlog, or cRPO, was \$7.91 billion at the end of Q2, increasing 16.4%. The result was driven by elevated volume of renewal activity including higher-than-expected early renewals, along with continued momentum in new ACV and strong partner growth. Approximately one point of cRPO growth came from tenants - in line with our expectations. We anticipate this impact on growth will be just over a point for the remainder of the year.

Total subscription revenue backlog at the end of the quarter was \$25.37 billion, up 18%, and gross revenue retention rates remained healthy at 97%.

Non-GAAP operating income for the second quarter was \$680 million, representing a non-GAAP operating margin of 29%. We continue to execute on delivering margin expansion while growing our topline.

We are focused on making targeted and impactful investments to support long-term growth, such as expanding our AI talent - both organically and inorganically - entering new markets such as India, and investing in certain industries including our Federal business. At the same time, we are driving efficiencies across people, processes and systems - all accelerated by AI.

Q2 operating cash flow was \$616 million, growth of 8%.

We repurchased \$299 million dollars of our shares during the quarter and had \$1.2 billion in remaining authorization as of July 31.

We ended the quarter with \$8.2 billion in cash and marketable securities.

Our headcount as of July 31 stood at approximately 19,500 workmates around the globe.

Now turning to guidance.

Following our first half momentum and incorporating the acquisition of Paradox - which we expect to close later in Q3 - we are increasing our FY26 subscription revenue guidance to \$8.815B, growth of 14%.

We expect Q3 FY26 subscription revenue to be approximately \$2.235 billion, also growth of 14%.

We expect cRPO to increase between 15% and 16% in Q3. This does not include the impact of the Paradox acquisition.

We continue to expect FY26 professional services revenue of approximately \$700 million. For Q3, we expect professional services revenue of \$180 million.

We are increasing our FY26 non-GAAP operating margin to approximately 29%, reflecting ongoing efficiencies we are driving across the business.

For Q3, we expect a non-GAAP operating margin of 28%.

We expect GAAP operating margins to be approximately 17 and 21 points lower than our Q3 and full-year FY26 non-GAAP operating margins, respectively.

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

We are increasing our FY26 operating cash flow outlook to \$2.85 billion, driven by the timing of cash tax payments as well as our operating performance for the year.

We now expect FY26 capital expenditures of approximately \$200 million, reflecting free cash flow of \$2.65 billion, growth of 21%.

We look forward to hosting many of you at our upcoming Financial Analyst Day on September 16, where we will share our framework for future growth and margin expansion. We are well positioned to capture our growing TAM and the emerging AI opportunity, and we're excited about the growth and value we expect to drive for our customers, partners and shareholders.

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

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