

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2020
(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	\$ 152,396	\$ (16,767)	\$ (7,811)	\$ —	\$ —	\$ 127,818
Costs of professional services	142,785	(27,349)	(824)	—	—	114,612
Product development	419,962	(128,423)	(4,006)	—	—	287,533
Sales and marketing	302,870	(54,077)	(8,352)	—	—	240,441
General and administrative	102,024	(33,216)	(1,355)	—	—	67,453
Operating income (loss)	(14,077)	259,832	22,348	—	—	268,103
Operating margin	<i>(1.3)%</i>	<i>23.5 %</i>	<i>2.0 %</i>	<i>— %</i>	<i>— %</i>	<i>24.2 %</i>
Other income (expense), net	(8,846)	—	—	11,988	—	3,142
Income (loss) before provision for (benefit from) income taxes	(22,923)	259,832	22,348	11,988	—	271,245
Provision for (benefit from) income taxes	1,417	—	—	—	50,119	51,536
Net income (loss)	\$ (24,340)	\$ 259,832	\$ 22,348	\$ 11,988	\$ (50,119)	\$ 219,709
Net income (loss) per share ⁽¹⁾	\$ (0.10)	\$ 1.09	\$ 0.09	\$ 0.05	\$ (0.27)	\$ 0.86

- (1) GAAP net loss per share is calculated based upon 238,059 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 254,176 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$14.2 million and total employer payroll tax-related items on employee stock transactions of \$8.1 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, we determined the projected non-GAAP tax rate to be 19%. Included in this is a dilution impact of \$0.06 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Costs and expenses:						
Costs of subscription services	\$ 122,305	\$ (13,634)	\$ (7,593)	\$ —	\$ —	\$ 101,078
Costs of professional services	148,625	(22,249)	(569)	—	—	125,807
Product development	401,742	(118,215)	(4,420)	—	—	279,107
Sales and marketing	286,794	(47,142)	(7,820)	—	—	231,832
General and administrative	88,884	(29,762)	(1,453)	—	—	57,669
Operating income (loss)	(110,250)	231,002	21,855	—	—	142,607
Operating margin	<i>(11.8)%</i>	<i>24.6 %</i>	<i>2.4 %</i>	<i>— %</i>	<i>— %</i>	<i>15.2 %</i>
Other income (expense), net	(4,136)	—	—	13,511	—	9,375
Income (loss) before provision for (benefit from) income taxes	(114,386)	231,002	21,855	13,511	—	151,982
Provision for (benefit from) income taxes	1,343	—	—	—	24,494	25,837
Net income (loss)	\$(115,729)	\$ 231,002	\$ 21,855	\$ 13,511	\$ (24,494)	\$ 126,145
Net income (loss) per share ⁽¹⁾	\$ (0.51)	\$ 1.01	\$ 0.10	\$ 0.06	\$ (0.13)	\$ 0.53

- (1) GAAP net loss per share is calculated based upon 228,461 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 240,041 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$15.9 million and total employer payroll tax-related items on employee stock transactions of \$5.9 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 2020, the projected non-GAAP tax rate was 17%. Included in the per share amount is a dilution impact of \$0.02 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Reconciliation of GAAP to Non-GAAP Data
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	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	\$ 442,666	\$ (45,484)	\$ (26,298)	\$ —	\$ —	\$ 370,884
Costs of professional services	442,422	(74,467)	(4,843)	—	—	363,112
Product development	1,282,127	(378,950)	(20,710)	—	—	882,467
Sales and marketing	897,924	(150,881)	(26,841)	—	—	720,202
General and administrative	296,461	(97,958)	(5,111)	—	—	193,392
Operating income (loss)	(175,288)	747,740	83,803	—	—	656,255
Operating margin	(5.5)%	23.5 %	2.6 %	— %	— %	20.6 %
Other income (expense), net	(31,272)	—	—	41,209	—	9,937
Income (loss) before provision for (benefit from) income taxes	(206,560)	747,740	83,803	41,209	—	666,192
Provision for (benefit from) income taxes	4,164	—	—	—	122,412	126,576
Net income (loss)	\$(210,724)	\$ 747,740	\$ 83,803	\$ 41,209	\$(122,412)	\$ 539,616
Net income (loss) per share ⁽¹⁾	\$ (0.89)	\$ 3.17	\$ 0.36	\$ 0.17	\$ (0.66)	\$ 2.15

- (1) GAAP net loss per share is calculated based upon 235,685 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 251,517 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$45.8 million and total employer payroll tax-related items on employee stock transactions of \$38.0 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, we have determined the projected non-GAAP tax rate to be 19%. Included in the per share amount is a dilution impact of \$0.14 from the conversion of basic net income (loss) per share to diluted net income (loss) per share.

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Costs and expenses:						
Costs of subscription services	\$ 355,935	\$ (36,050)	\$ (31,992)	\$ —	\$ —	\$ 287,893
Costs of professional services	424,548	(57,390)	(5,261)	—	—	361,897
Product development	1,127,695	(315,210)	(23,431)	—	—	789,054
Sales and marketing	839,930	(128,686)	(31,103)	—	—	680,141
General and administrative	258,932	(88,122)	(6,772)	—	—	164,038
Operating income (loss)	(356,133)	625,458	98,559	—	—	367,884
Operating margin	<i>(13.4)%</i>	<i>23.6 %</i>	<i>3.7 %</i>	<i>— %</i>	<i>— %</i>	<i>13.9 %</i>
Other income (expense), net	2,899	—	—	39,399	—	42,298
Income (loss) before provision for (benefit from) income taxes	(353,234)	625,458	98,559	39,399	—	410,182
Provision for (benefit from) income taxes	(518)	—	—	—	70,249	69,731
Net income (loss)	\$ (352,716)	\$ 625,458	\$ 98,559	\$ 39,399	\$ (70,249)	\$ 340,451
Net income (loss) per share ⁽¹⁾	\$ (1.56)	\$ 2.77	\$ 0.44	\$ 0.17	\$ (0.41)	\$ 1.41

- (1) GAAP net loss per share is calculated based upon 226,071 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 240,657 diluted weighted-average shares of common stock.
- (2) Other operating expenses include amortization of acquisition-related intangible assets of \$54.8 million and total employer payroll tax-related items on employee stock transactions of \$43.7 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 2020, the projected non-GAAP tax rate was 17%. Included in the per share amount is a dilution impact of \$0.10 from the conversion of basic net income (loss) per share to diluted net income (loss) 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.
- *Amortization of convertible senior notes debt discount and issuance costs.* Under GAAP, we are 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 are 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 are excluded from management's assessment of our operating performance because management believes that these non-cash expenses are not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of Workday's operational performance.
- *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 2020, we determined the projected non-GAAP tax rate to be 17%. For fiscal 2021, 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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