

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2016
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 43,009	\$ (3,636)	\$ (88)	\$ —	\$ 39,285
Costs of professional services	59,671	(5,504)	(137)	—	54,030
Product development	131,244	(30,372)	(2,226)	—	98,646
Sales and marketing	121,073	(14,709)	(328)	—	106,036
General and administrative	41,871	(15,052)	(596)	—	26,223
Operating loss	(73,441)	69,273	3,375	—	(793)
Operating margin	(22.7)%	21.5%	1.0%	—	(0.2)%
Other income (expense), net	(6,505)	—	—	6,510	5
Loss before provision for income taxes	(79,946)	69,273	3,375	6,510	(788)
Provision for income taxes	1,182	—	—	—	1,182
Net loss	\$ (81,128)	\$ 69,273	\$ 3,375	\$ 6,510	\$ (1,970)
Net loss per share, basic and diluted ⁽²⁾	\$ (0.42)	\$ 0.36	\$ 0.02	\$ 0.03	\$ (0.01)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

⁽²⁾ Calculated based upon 192,485 basic and diluted weighted-average shares of common stock.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2015
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 29,218	\$ (1,431)	\$ (103)	\$ —	\$ 27,684
Costs of professional services	40,737	(2,959)	(247)	—	37,531
Product development	88,963	(17,142)	(1,123)	—	70,698
Sales and marketing	88,469	(7,068)	(424)	—	80,977
General and administrative	29,270	(10,784)	(514)	—	17,972
Operating loss	(50,384)	39,384	2,411	—	(8,589)
Operating margin	(22.3)%	17.4%	1.1%	—	(3.8)%
Other income (expense), net	(8,271)	—	—	6,166	(2,105)
Loss before provision for income taxes	(58,655)	39,384	2,411	6,166	(10,694)
Provision for income taxes	811	—	—	—	811
Net loss	\$ (59,466)	\$ 39,384	\$ 2,411	\$ 6,166	\$ (11,505)
Net loss per share, basic and diluted ⁽²⁾	\$ (0.32)	\$ 0.21	\$ 0.01	\$ 0.04	\$ (0.06)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

⁽²⁾ Calculated based upon 185,696 basic and diluted weighted-average shares of common stock.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2016
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 149,869	\$ (12,060)	\$ (414)	\$ —	\$ 137,395
Costs of professional services	224,558	(19,526)	(768)	—	204,264
Product development	469,944	(109,362)	(7,201)	—	353,381
Sales and marketing	434,056	(51,617)	(1,482)	—	380,957
General and administrative	148,578	(57,405)	(2,095)	—	89,078
Operating loss	(264,659)	249,970	11,960	—	(2,729)
Operating margin	(22.8)%	21.6%	1.0%	—	(0.2)%
Other income (expense), net	(24,242)	—	—	25,518	1,276
Loss before provision for income taxes	(288,901)	249,970	11,960	25,518	(1,453)
Provision for income taxes	1,017	—	—	—	1,017
Net loss	\$ (289,918)	\$ 249,970	\$ 11,960	\$ 25,518	\$ (2,470)
Net loss per share, basic and diluted ⁽²⁾	\$ (1.53)	\$ 1.32	\$ 0.06	\$ 0.14	\$ (0.01)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

⁽²⁾ Calculated based upon 190,016 basic and diluted weighted-average shares of common stock.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2015
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 102,476	\$ (6,053)	\$ (204)	\$ —	\$ 96,219
Costs of professional services	162,327	(12,890)	(451)	—	148,986
Product development	316,868	(63,938)	(3,221)	—	249,709
Sales and marketing	315,840	(29,875)	(1,420)	—	284,545
General and administrative	106,051	(43,292)	(1,202)	—	61,557
Operating loss	(215,702)	156,048	6,498	—	(53,156)
Operating margin	(27.4)%	19.8%	0.9%	—	(6.7)%
Other income (expense), net	(30,270)	—	—	24,171	(6,099)
Loss before provision for income taxes	(245,972)	156,048	6,498	24,171	(59,255)
Provision for income taxes	2,010	—	—	—	2,010
Net loss	\$ (247,982)	\$ 156,048	\$ 6,498	\$ 24,171	\$ (61,265)
Net loss per share, basic and diluted ⁽²⁾	\$ (1.35)	\$ 0.85	\$ 0.04	\$ 0.13	\$ (0.33)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

⁽²⁾ Calculated based upon 183,702 basic and diluted weighted-average shares of common stock.

Workday, Inc.
Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows
(A Non-GAAP Financial Measure)

(in thousands)
(unaudited)

	Three Months Ended January 31,		Year Ended January 31,	
	2016	2015	2016	2015
Net cash provided by (used in) operating activities	\$ 98,491	\$ 48,275	\$ 258,637	\$ 102,003
Purchases of property and equipment	(41,985)	(37,665)	(133,667)	(103,646)
Free cash flows	<u>\$ 56,506</u>	<u>\$ 10,610</u>	<u>\$ 124,970</u>	<u>\$ (1,643)</u>

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except per share data)

	Quarter ended 1/31/15	Quarter ended 10/31/15	Quarter ended 1/31/16
GAAP results:			
Costs of subscription services	\$ 29,218	\$ 39,791	\$ 43,009
Sequential change %	6.5%	12.8%	8.1%
Y/Y change %	47.1%	45.1%	47.2%
Costs of professional services	40,737	61,963	59,671
Sequential change %	-8.2%	9.1%	-3.7%
Y/Y change %	31.8%	39.7%	46.5%
Total costs of revenue	69,955	101,754	102,680
Sequential change %	-2.6%	10.5%	0.9%
Y/Y change %	37.8%	41.7%	46.8%
Subscription services gross margin	83.9%	83.6%	83.6%
Professional services gross margin	8.3%	1.0%	3.2%
Gross margin	69.1%	66.7%	68.3%
Product development	88,963	124,020	131,244
Sequential change %	4.3%	7.5%	5.8%
Y/Y change %	60.8%	45.4%	47.5%
Sales and marketing	88,469	111,658	121,073
Sequential change %	9.7%	4.9%	8.4%
Y/Y change %	45.5%	38.4%	36.9%
General and administrative	29,270	38,008	41,871
Sequential change %	1.6%	4.2%	10.2%
Y/Y change %	27.5%	32.0%	43.1%
Operating loss	(50,384)	(70,174)	(73,441)
Operating margin	-22.3%	-23.0%	-22.7%
Sequential change %	1.6%	0.9%	0.3%
Y/Y change %	11.5%	0.9%	-0.4%
Other expense, net	(8,271)	(6,722)	(6,505)
Net loss	(59,466)	(77,811)	(81,128)
Net loss per share	\$ (0.32)	\$ (0.41)	\$ (0.42)
Weighted-average shares used to compute net loss per share	185,696	190,727	192,485

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except per share data)

	Quarter ended 1/31/15	Quarter ended 10/31/15	Quarter ended 1/31/16
Adjustments:			
Costs of subscription services ⁽¹⁾	\$ (1,534)	\$ (3,267)	\$ (3,724)
Costs of professional services ⁽¹⁾	(3,206)	(5,531)	(5,641)
Total costs of revenue	(4,740)	(8,798)	(9,365)
Subscription services gross margin	0.8%	1.3%	1.4%
Professional services gross margin	7.2%	8.8%	9.2%
Gross margin	2.1%	2.9%	2.9%
Product development ⁽¹⁾⁽²⁾	(18,265)	(31,141)	(32,598)
Sales and marketing ⁽¹⁾	(7,492)	(15,517)	(15,037)
General and administrative ⁽¹⁾	(11,298)	(15,560)	(15,648)
Operating loss	41,795	71,016	72,648
Operating margin	18.5%	23.3%	22.5%
Other expense, net ⁽³⁾	6,166	6,422	6,510
Net loss	47,961	77,438	79,158
Net loss per share	\$ 0.26	\$ 0.41	\$ 0.41
Weighted-average shares used to compute net loss per share	185,696	190,727	192,485

⁽¹⁾ Adjustments related to share-based compensation and employer payroll tax-related items on employee stock transactions.

⁽²⁾ Adjustments related to amortization of acquisition-related intangible assets.

⁽³⁾ Adjustments related to the amortization of debt discount and issuance costs related to the 2018 Notes

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except per share data)

	Quarter ended 1/31/15	Quarter ended 10/31/15	Quarter ended 1/31/16
Non-GAAP results:			
Costs of subscription services	\$ 27,684	\$ 36,524	\$ 39,285
Sequential change %	8.8%	14.0%	7.6%
Y/Y change %	46.5%	43.5%	41.9%
Costs of professional services	37,531	56,432	54,030
Sequential change %	-6.4%	9.6%	-4.3%
Y/Y change %	30.4%	40.8%	44.0%
Total costs of revenue	65,215	92,956	93,315
Sequential change %	-0.5%	11.3%	0.4%
Y/Y change %	36.8%	41.8%	43.1%
Subscription services gross margin	84.8%	85.0%	85.0%
Sequential change %	0.3%	-0.7%	0.0%
Sequential change (bps)	26 bps	(73) bps	4 bps
Y/Y change %	1.9%	0.4%	0.2%
Y/Y change (bps)	184 bps	43 bps	22 bps
Professional services gross margin	15.5%	9.8%	12.3%
Sequential change %	-5.4%	-2.9%	2.5%
Sequential change (bps)	(541) bps	(288) bps	252 bps
Y/Y change %	7.9%	-11.1%	-3.2%
Y/Y change (bps)	786 bps	(1,109) bps	(316) bps
Gross margin	71.2%	69.5%	71.1%
Sequential change %	1.7%	-0.9%	1.6%
Sequential change (bps)	165 bps	(91) bps	160 bps
Y/Y change %	4.8%	0.0%	0.0%
Y/Y change(bps)	478 bps	2 bps	(3) bps
Product development	70,698	92,879	98,646
Sequential change %	8.0%	8.4%	6.2%
Y/Y change %	55.5%	41.9%	39.5%
Sales and marketing	80,977	96,141	106,036
Sequential change %	13.2%	3.5%	10.3%
Y/Y change %	45.4%	34.4%	30.9%
General and administrative	17,972	22,448	26,223
Sequential change %	15.9%	5.0%	16.8%
Y/Y change %	28.5%	44.8%	45.9%
Operating income (loss)	(8,589)	842	(793)
Operating margin	-3.8%	0.3%	-0.2%
Sequential change %	-2.4%	0.5%	-0.5%
Sequential change (bps)	(243) bps	53 bps	(52) bps
Y/Y change %	11.0%	1.6%	3.6%
Y/Y change (bps)	1,097 bps	164 bps	355 bps
Other income (expense), net	(2,105)	(300)	5
Net loss	(11,505)	(373)	(1,970)
Net loss per share	\$ (0.06)	\$ (0.00)	\$ (0.01)
Weighted-average shares used to compute net income (loss) per share	185,696	190,727	192,485

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 loss, non-GAAP net loss per share and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. The non-GAAP financial measures of non-GAAP operating loss and non-GAAP net loss per share differ from GAAP in that they exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets and non-cash interest expense related to our convertible senior notes, as applicable. Free cash flows differ from GAAP cash flows from operating activities in that it treats purchases of property and equipment, property and equipment acquired under capital leases and purchased other (non-acquisition related) intangible assets as a reduction to cash flows.

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 and the ability of operations to generate cash. 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, as they exclude expenses that are not reflective of ongoing operating results. 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 future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

Management believes excluding the following items from the GAAP Condensed Consolidated Statement 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 in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted stock unit awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and shares offered under our Employee Stock Purchase Plan, which are elements of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- *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 the ongoing operations.
- *Amortization of 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. 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 the company's operational performance.

Additionally, we believe that the non-GAAP financial measure, free cash flows, is meaningful to investors because we review cash flows generated from or used in operations after deducting capital expenditures, whether purchased or leased, and purchased other intangible assets, due to the fact that these expenditures are considered to be an ongoing operational component of our business. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

The use of non-GAAP operating loss and non-GAAP net loss per share measures has 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.